

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Kalamazoo	County Kalamazoo
Fiscal Year End December 31, 2005	Opinion Date June 14, 2006	Date Audit Report Submitted to State June 30, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

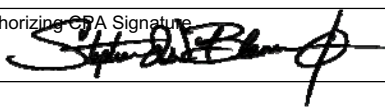
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO **Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☒ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe) Single Audit	<input checked="" type="checkbox"/>			
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number 517-787-6503		
Street Address 675 Robinson Road		City Jackson	State MI	Zip 49203
Authorizing CPA Signature 		Printed Name Stephen W. Blann, CPA, CGFM		License Number 24801

CITY OF KALAMAZOO, MICHIGAN

COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005

City Commission

Hannah J. McKinney, Mayor
Bobby J. Hopewell, Vice Mayor

Don Cooney
David Anderson
Mary Balkema
Barbara Hamilton Miller
Sean McCann

Prepared by: Management Services Department, Accounting Division

City Manager: Kenneth P. Collard, ICMA-CM, P.E.

Independent Auditors:
Rehmann Robson, P.C.

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* * * * *



**Department of Management Services
Budget and Accounting Division**

241 West South Street
Kalamazoo, MI 49007-4796
Phone: 269.337.8450
Fax: 269.337.8448
www.kalamazoocity.org

June 12, 2006

To the Honorable Mayor, City Commission, and Citizens of the City of Kalamazoo:

State law requires that every general-purpose local government publish within six months of the close of each fiscal year a complete set of audited financial statements. This report is published to fulfill the City of Kalamazoo's requirement for the fiscal year ended December 31, 2005.

This financial report consists of management's representations concerning the finances of the City of Kalamazoo. Therefore, management assumes full responsibility for the completeness and reliability of the information contained in this report. To provide a reasonable basis for making these representations, City management has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Kalamazoo's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material aspects.

Rehmann Robson, Certified Public Accounts, have issued an unqualified opinion on the City of Kalamazoo's financial statements for the year ended December 31, 2005. The independent auditor's report is located at the front of the financial sections of this report.

The independent audit of the financial statements of the City was part of a broader, federally-mandated "Single Audit" in conformity with the provisions of the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the separately issued City's Single Audit Report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis ("MD&A"). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

The City of Kalamazoo, incorporated in 1884, is located between Chicago and Detroit in the southwest corner of Michigan and encompasses an area of 26 square miles. The current population of the City is approximately 77,000. It is home to Western Michigan University, a state-designated Research I university, as well as the private Kalamazoo College, Kalamazoo Valley Community College and is a satellite site for Davenport University. As a municipality of the State of Michigan, the City of Kalamazoo is empowered to levy a property tax on both real and personal property located within its boundaries.

The City of Kalamazoo has operated under the commission-manager form of government since 1918. Policymaking and legislative authority are vested in an elected commission consisting of seven members, all serving part-time. As required by the City Charter, the entire City Commission is elected on an at-large, non-partisan basis, every two years. The candidates receiving the highest number of votes serve as Mayor and Vice Mayor respectively. The City Manager, City Attorney, City Clerk, City Assessor and Internal Auditors are all appointed by, and report directly to, the City Commission. The City Manager is responsible for administering the policies and ordinances of the City Commission, for appointing the heads of the City's various departments and overseeing day-to-day operations of the City.

City Services

The City of Kalamazoo provides a full range of traditional government services, including police and fire protection; economic and community development activities; recreational and cultural activities and the construction and maintenance of streets and other infrastructure. Unique for a City of its size, the City operates its police and fire services under the public safety concept, in which members of the department are cross-trained to perform both police and fire services. In addition, the City of Kalamazoo operates water and wastewater systems. Both systems are regional in character, serving a large portion of the county outside of the City of Kalamazoo's corporate limits, and both are financially self-supporting. Both Utilities have significant excess capacity compared to current usage.

The City has three tax-increment-financed districts within its boundaries: a Downtown Development Authority for its downtown area, a Brownfield Redevelopment Authority to redevelop blighted properties within its boundaries, and a Local Development Financing Authority for a business and technology research park. A tax-increment financing ("TIF") district captures incremental increases in property tax revenues and reinvests them within that district. In addition to these TIF districts, a portion of the City has been designated as a Renaissance Zone by the State of Michigan, which allows residents and businesses within that zone to enjoy exemption from property taxes and certain state taxes. These districts are discretely presented component units of the City.

Citizens are also served by the City's Metro Transit System, a discretely presented component unit of the City of Kalamazoo, which provides mass-transportation services throughout the City, including Western Michigan University, and into outlying areas.

In addition, the City of Kalamazoo has four other legally separate component units, the Economic Development Corporation, Hospital Finance Authority, Kalamazoo Municipal Golf Association and the Kalamazoo Building Authority, entities for which the government is considered to be financially accountable. Additional information on all seven of these legally separate entities can be found in the notes to the financial statements.

Budgeting Control

The annual budget serves as the foundation for the City of Kalamazoo's financial planning and control. The City Charter requires that the City Manager submit to the City Commission an estimate of revenues and contemplated expenditures for the following fiscal year by December 1. An interim appropriation resolution is passed by January 1 to continue normal operations and by February 1 of each year the City Commission passes an annual appropriation resolution approving the estimated expenditures. The budget is adopted at the departmental level; Department heads may transfer resources within a department as they see fit. Transfers between departments, however, need special approval from the commission. Legislative actions by the City Commission to issue bonds, accept grants and authorize special assessment projects are considered authority to expend funds for those purposes. Unexpended capital project appropriations automatically carry forward to the next fiscal year. All other appropriations lapse at year-end, except for those specifically approved to be carried forward by the City Commission.

The City Commission adopts budgets for the General Fund and all special revenue funds, as required by Michigan statute. The Commission also adopts budgets for capital projects, enterprise funds, and the administrative portion of the pension fund, although not required by the State of Michigan.

The budget has been approved in accordance with GAAP for all governmental funds with the exception of property taxes, as the State of Michigan property tax calendar (which begins July 1) differs from the City's fiscal year (which begins January 1). The City Charter allows property taxpayers to pay their taxes in twelve (12) monthly installments. Property taxes are budgeted in the year levied, even though they are not fully available to finance operations in the current year. Because GAAP requires the recognition of only those property tax collections made during the fiscal year with a sixty-day accrual period, the City prepares dual statements for its General and Solid Waste funds, one in conformity with GAAP, and one on a "Non-GAAP, budgetary basis". Further discussion on this difference and its implication is provided in the Management's Discussion and Analysis and the note disclosures.

Cash Management Policies and Practices

The City's investments, managed by the City Treasurer, are guided by an investment policy adopted by the City Commission in compliance with statutory requirements for municipal investments. Due to their long-term nature, funds for the City's pension fund and Cemetery Perpetual Care fund maintain separate investment portfolios, as allowed by State law, and are managed by an Investment Committee appointed by the City Commission.

Risk Management

The City is predominantly self-insured for general liability, workers' compensation, life and health insurance. The City's policy is to recognize the cost of these claims at the time the liability is incurred in the Insurance and Benefits Fund. The estimated uninsured claim liability (both reported and incurred but not reported) has been recorded as a liability in the Insurance and Benefits Fund. Additional information on risk management can be found in the note disclosures.

Pension and Other Post-employment Benefits

The City sponsors a single-employer defined benefit pension plan for its employees. A five-member Board of Trustees is empowered to administer the system. A six-member Investment Committee appointed by the City Commission is responsible for the investment of the system's assets.

As of December 31, 2005, the City of Kalamazoo Employee Retirement System had 1,534 members. Each year, an independent actuary calculates the amount of the annual contribution that the City must make to ensure that the plan will be able to fully meet its obligations to retirees and beneficiaries on a timely basis. Due to the Plan's over-funded status, no contribution was required of the City for fiscal year 2005. The funded status, defined as the percentage of actuarial assets to actuarial liabilities, decreased from 147.4% in 2004 to 143.5% as of December 31, 2005, due to changes made to the actuarial assumptions and cost methods.

The City also provides post-employment health care benefits for certain retirees and their beneficiaries. These benefits are financed on a pay-as-you go basis. Current GAAP does not require governments to report a liability in the financial statements in connection with an employer's obligation to provide these benefits. Additional information on the City's pension arrangements and post-employment benefits can be found in the notes to the financial statements.

SEC Disclosure under Rule 15c2-12

Securities and Exchange Commission (SEC) Rule 15c2-12 requires that issuers of municipal securities undertake to provide certain annual financial information to various information repositories. In recognition that a CAFR is an appropriate disclosure document for providing information useful to existing and potential investors in the secondary market, and in order to meet our obligation to provide periodic disclosure for the secondary market, as required by Rule 15c2-12, the City of Kalamazoo has elected to include in this CAFR tables providing quantitative data on those activities which require such disclosure. Those tables can be found in the statistical section of the CAFR.

Local Economy

Kalamazoo has long been recognized for its diverse economy, anchored by major employers in the following industries: pharmaceuticals (Pfizer), health care products (Stryker Corp.), health services (Bronson and Borgess regional hospitals), banking (National City), and higher education (Western Michigan University, Kalamazoo College, and Kalamazoo Valley Community College). Paper products manufacturers and automobile component suppliers have reduced their presence in Kalamazoo in recent years, but employers in each of these industries still provide good paying jobs in the community.

Kalamazoo's workforce is as diverse as its economy, ranging from those skilled in manufacturing to research scientists. The region continues to have one of the lowest unemployment rates in the state. At the same time, enrollment in local universities and colleges exceeds 45,000 students, creating a base of potential employees that is highly attractive to business and industry.

A long-time cultural and commercial office center for the region, Kalamazoo has made tremendous strides over the past decade to revitalize its central business district, and downtown Kalamazoo has now become a dining and entertainment hub, with much of the new activity occurring in restored historic buildings.

In 2005, a group of anonymous citizens interested in the economic strength and quality of life in the City of Kalamazoo made a tremendous contribution on behalf of Kalamazoo Public School System students. All students who graduate from Kalamazoo Public Schools, are residing in the district, and have been students four years or more will be given funding for college tuition and mandatory fees. The amount of available dollars depends on years of residency and the number of grades attended in KPS, up to 100% of tuition and mandatory fees. The funds will be available to use at any public university or community college in the State of Michigan. The scholarships that now await graduates of Kalamazoo Public Schools go a long way toward making the school-improvement goal a done deal and in the process, could launch an unprecedented boon to business and economic development.

The City of Kalamazoo, in cooperation with the State of Michigan and Southwest Michigan First joined forces to design an incentive package that kept the Stryker Corporation from moving their headquarters to the east coast. The company anticipates that it will expand its employment in the new facility, from a current level of 90 employees to approximately 140 employees over the next 10 years.

Additionally, the City worked closely with Western Michigan University to attract new businesses to the Business Technology and Research Park. In 2005, 3 new businesses relocated to the Park.

The \$27 million cinema/ramp project is another public/private partnership between the Downtown Development Authority, Brownfield Redevelopment Authority, City of Kalamazoo Building Authority and the State of Michigan and the private sector. The project entails the demolition of the former Gilmore parking ramp, the construction of a new 500-space parking ramp, a 70,000 square-foot state-of-the-art 14 screen cinema, 25,000 square feet of retail space and 25 to 30 residential units. The parking ramp opened in December 2005 and the cinema is scheduled to be completed late 2006.

Several Brownfield projects were completed in 2005 or are near completion, including a new Little Caesar's Pizza restaurant which yielded 20 jobs; Davis Creek Meat Processing Plant yielded 35 jobs and Aggregate Industries asphalt plant and regional corporation offices yielded more than 46 jobs.

The mark of a great city is the vibrancy of its community. Neighborhood development continued in 2005. Déjà Vu, the adult cinema and adult bookstore, moved out of the Edison Neighborhood. This move opens the door to commercial revitalization in the neighborhood. The City also received its second Cool Cities grant. The latest \$100,000 will support the redevelopment of the Portage Street corridor.

The City continues to make progress in the area of affordable housing. The City also developed a 10-point affordable housing strategy used as the foundation for a countywide initiative. Several affordable housing projects were created in 2005, including Kalamazoo Village Apartments (24 units) and Apple Ridge Apartments (56 units). Both projects are 100% occupied. The City's first mixed-income housing development for low and moderate-income families is the Rosewood Development with 68 units for rent & 12 single-family units for sale.

The City of Kalamazoo initiated the creation of the countywide transit authority, which marks the first efforts to improving the transportation system throughout the County. Additionally, the renovations of the new Intermodal Transportation Center are underway and the \$13 million facility is scheduled for completion in August 2006. The Kalamazoo Transportation Center project consists of both the rehabilitation and preservation of the historical Intermodal Transportation Center (bus/train station) and the construction of a new transfer area for Metro Transit and inter-city buses.

Long-term financial planning

The City of Kalamazoo believes long-term financial planning has been and will continue to be a vital component to ensure the City's fiscal health. The City Commission identified a solid core of financial priorities which focus on: Basic Services and Infrastructure, Economic Growth, Neighborhood and Community Development, Affordable Housing and Expanding the Resource Base.

Fiscal year 2006 is expected to be another difficult year as state-shared revenues and other revenues continue to lag behind expenditures. This situation is not unique to our community. A number of Michigan cities – especially those in urban centers – have been reducing government services in recent years.

The City's tax growth is limited by Proposal A, which caps growth in taxable value. This capping tax base growth has a negative affect on most communities in Michigan, but is a particular hardship for central city communities like Kalamazoo due to the built out nature of our community. Combined with a slow-growing economy, Proposal A hinders the ability of local government to address new service needs in the community without impacting basic municipal services.

In 2006, which has been termed a “transitional year” a strategic planning initiative will begin and will result in a comprehensive 5-year fiscal plan which will form the foundation for a transformation from budgeting based on “allocation of resources” to an outcomes based approach which focuses on positively impacting the quality of life for all citizens of the Kalamazoo community. The fiscal plan will include components to ensure a fiscally sustainable organization, which is positioned to increase the organizational capacity, including efficiency and effectiveness in the delivery of core services. Building on the “Blueprint for Action” completed in 2001, and updated in 2006, the 5-year fiscal plan will continue to utilize a high level of community involvement to obtain a comprehensive assessment of our community's expectations and resources.

Awards and Acknowledgements

The Government Finance Officer's Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Kalamazoo for its comprehensive annual financial report for the fiscal year ended December 31, 2004. This was the tenth consecutive year that the government has received this prestigious award. In order to be awarded a Certificate of Achievement, a government had to publish an easily readable and efficiently organized comprehensive annual finance report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current report continues to meet the Certificate of Achievement Program's requirements and we are submitting in to the GFOA to determine its eligibility for another certificate.

In addition, the City also received the Government Finance Officer's Association of the United States and Canada Distinguished Budget Presentation Award for its 2004 annual budget document. In order to qualify for the Distinguished Budget Presentation Award, the government's budget document had to be judged proficient as a policy document, a financial plan, an operations guide and a communications device.

The preparation of this report would not have been possible without the efficient and dedicated service of entire staff of the City of Kalamazoo. We want to thank all involved, especially the entire staff of the Budget & Accounting Department. Credit also must be given to the mayor and the governing commission for their unfailing support to maintaining the highest standards of professionalism in the management of the City of Kalamazoo's finances.

Respectfully submitted,



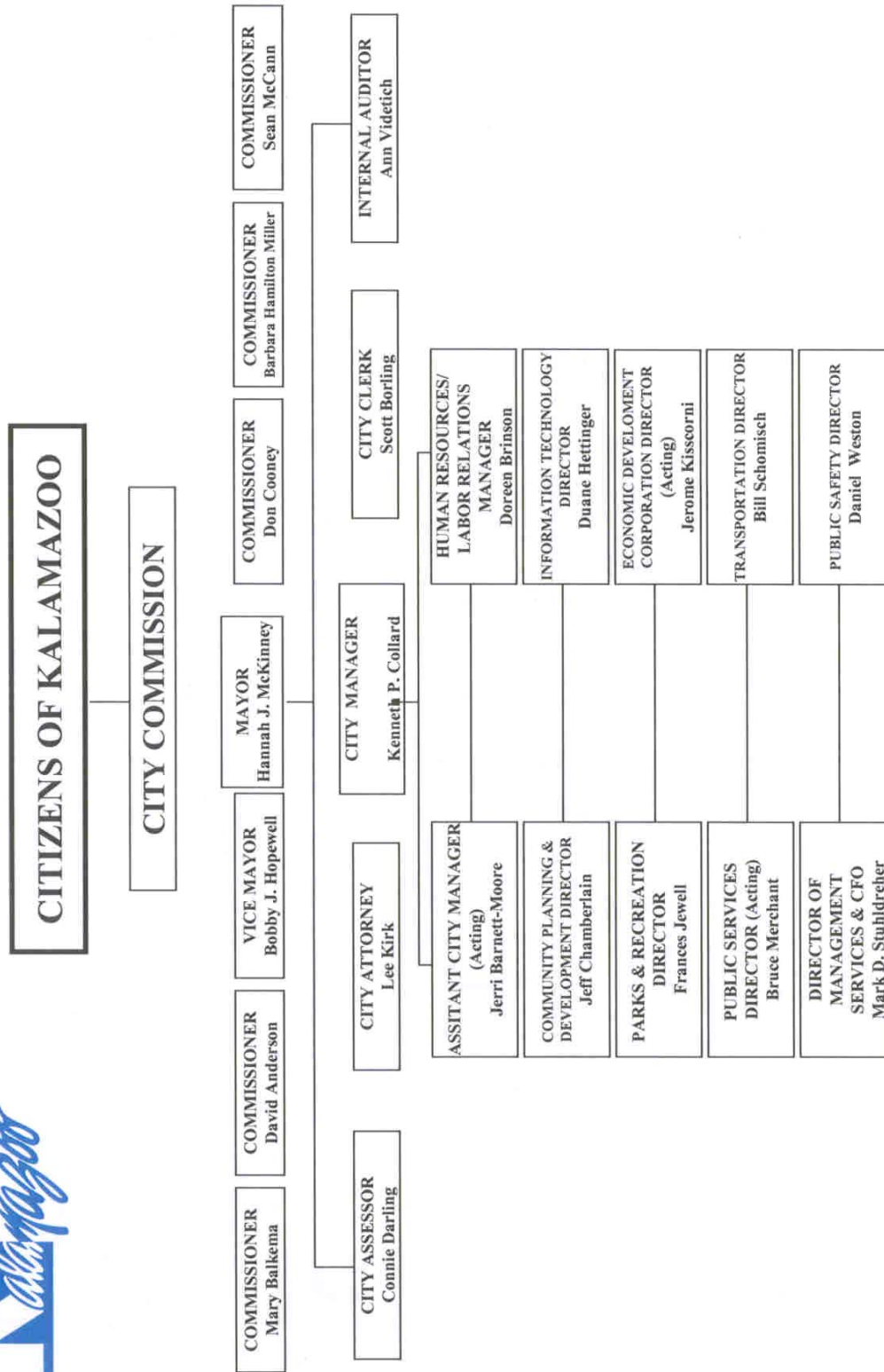
Kenneth P. Collard
Acting City Manager



Mark D. Stuhldreher
Management Services Director, CFO



CITY OF KALAMAZOO ORGANIZATIONAL CHART



CITY OF KALAMAZOO, MICHIGAN

COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005

City Commission

Hannah J. McKinney, Mayor
Bobby J. Hopewell, Vice Mayor

Don Cooney
David Anderson
Mary Balkema
Barbara Hamilton Miller
Sean McCann

CITY ADMINISTRATION

City Manager: Kenneth P. Collard, ICMA-CM, P.E.

Jerome Kisscorni, Acting Executive Director of Economic Development Corporation
Jerri Barnett-Moore, Acting Assistant City Manager
Doreen Brinson, Human Resources/Labor Relations Director
Daniel Weston, Chief of Public Safety
Patsy Moore, Budget and Accounting Director/Comptroller
William Schomisch, Transportation Director
Frances Jewell, Parks & Recreation Director
Duane Hettinger, Information Technology Director
Mark Stuhldreher, Management Services Director & Chief Financial Officer
Bruce Merchant, Acting Public Services Director

MANAGEMENT SERVICES DEPARTMENT

Patsy Moore, Budget & Accounting Director/
Comptroller
Wade Carlson, City Treasurer
Constance Darling, City Assessor

CITY COMMISSION APPOINTEES

Lee Kirk, City Attorney
Scott Borling, City Clerk
Ann Videtich, Internal Auditor
Constance Darling, City Assessor
Nick Lam, Purchasing Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Kalamazoo,
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Carla E. Perry

President

Jeffrey R. Emen

Executive Director



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Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

June 14, 2006

Honorable Mayor and
Members of the City Commission
City of Kalamazoo, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the ***City of Kalamazoo, Michigan***, as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Kalamazoo's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Downtown Development Authority and the Kalamazoo Municipal Golf Association, which represent 17.2% and 5.2% of the assets and 23.6% and 4.5% of the revenues of the aggregate discretely presented component units, respectively. Those financial statements were audited by other auditors whose reports were furnished to us, and our opinion, insofar as it relates to the amounts included for the Downtown Development Authority and the Kalamazoo Municipal Golf Association, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Kalamazoo, Michigan, as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparisons for the General Fund and major special revenue funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 14, 2006, on our consideration of the City of Kalamazoo, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters, in a separately issued single audit report. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-20 and the historical pension supplementary information for the Employees Retirement System listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and do not express opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Kalamazoo's basic financial statements. The introductory section, combining and individual fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

Management's Discussion and Analysis

As management of the City of Kalamazoo, Michigan, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2005. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i-vi of this report.

Financial Highlights

- The assets of the City exceeded its liabilities ("net assets") at the close of the most recent fiscal year by \$324,532,750. Of this amount, \$25,515,829 ("unrestricted net assets") may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$9,823,830 or 3.12%. This net increase was a combination of a \$7.9 million increase in governmental activities net assets and a \$1.8 million increase in business-type activity net assets.
- The City's total bonded debt increased by \$3,195,924 during the current fiscal year. The increase was mostly attributable to the three new debt issues: two Capital Improvement General Obligation bonds and one installment purchase contract, refinanced General Obligation debt and defeasance of debt net the scheduled repayment of bonded debt.
- As of the close of the current fiscal year, the City's *governmental funds* reported combined ending fund balances of \$26,539,532, a decrease of \$1,703,912 from the prior year. Approximately 54% of the combined fund balances, or \$14,296,020, was available for spending at the government's discretion ("*unreserved fund balance*"). However, of that amount, \$4,486,569 was attributable to special revenue funds and permanent funds. Fund balances in those funds must be used for their intended purposes, leaving \$9,809,551, or 9.7% of revenues and other financing sources, available for use at the government's discretion for general operating purposes.
- The General Fund *non-GAAP, budgetary* (see explanation under the General Fund financial analysis) unreserved, undesignated fund balance for the general fund was \$6,766,574, or 13.7% of total general fund revenues and other financing sources. For the purpose of the City's policy, amounts designated as budgeted for use in the next year, \$714,314 for 2006 is added to the unreserved, undesignated fund balance, resulting in a fund balance of \$7,480,888, or 15%. The General Fund *GAAP* unreserved, undesignated fund balance for the general fund was \$1,444,224 or 2.9% of total general fund revenues and other financing sources.
- Combined business-type funds net assets increased \$1,840,542 in 2005. This increase includes \$4 million increase to net assets in the Water Fund, due mainly to \$4.1 million being received as capital contributions (revenues for extensions and system improvements from an outside party), a \$1.1 million operating loss in the wastewater fund and the transfer of the Intermodal Transportation Center's net assets of \$1 million.

Management's Discussion and Analysis

Overview and Analysis of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Kalamazoo's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation and sick leave)

Both the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, highways and streets, parks and recreation, economic development and community development. The business-type activities of the City include wastewater, water and other enterprise operations.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also legally separate entities for which the City is financially accountable. Financial information for these *component units* are reported separately from the financial information presented for the primary government itself. The Building Authority, although also legally separate, functions for all practical purposes as a department of the City, and therefore has been included as an integral part of the primary government.

The government-wide financial statements can be found on pages 21-22 of this report.

Management's Discussion and Analysis

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, use fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on the *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains twenty-nine (29) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the City's general funds; the major street streets, local streets, solid waste, neighborhood and community development special revenue funds; the capital improvement project and Cork Street landfill cap construction funds; and the Building authority debt service fund. Data from the other sixteen (16) governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its general, special revenue and capital projects. Budgetary comparison statements have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 23-34 of this report.

Proprietary funds. The City maintains two different types of proprietary funds, *enterprise funds* and *internal service funds*. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its wastewater, water, and farmer's market. *Internal service funds* are an accounting device used to accumulate and allocate cost internally among the City's various functions. The City uses internal service funds to account for its equipment maintenance, self-insurance, engineering services, city-wide maintenance, and printing/mail services. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Management's Discussion and Analysis

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the wastewater and water systems, which are considered to be major funds of the City. Conversely, all of the internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 35-38 of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary funds financial statements can be found on pages 39-40 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 43-77 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to a schedule concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on page 78 of this report.

The combining statements referred to earlier in connection with non major funds are presented immediately following the required supplementary information. Combining and individual fund financial statements and schedules can be found on pages 79-126 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Kalamazoo, assets exceeded liabilities by \$324,532,750 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets, \$254,020,155 or 78.2 percent, reflects its investment in capital assets (e.g. land, land improvements, buildings, equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Management's Discussion and Analysis

City of Kalamazoo's Net Assets

	Governmental activities		Business-type activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 62,437,981	\$ 65,116,633	\$ 31,900,325	\$ 32,509,321	\$ 94,338,306	\$ 97,625,954
Capital assets, net	164,317,599	154,512,475	170,911,106	169,590,440	335,228,705	324,102,915
Total assets	226,755,580	219,629,108	202,811,431	202,099,761	429,567,011	421,728,869
Long-term liabilities outstanding	70,003,278	67,294,980	24,569,774	25,681,380	94,573,052	92,976,360
Other liabilities	7,690,119	11,255,233	2,771,090	2,788,356	10,461,209	14,043,589
Total liabilities	77,693,397	78,550,213	27,340,864	28,469,736	105,034,261	107,019,949
Net assets:						
Invested in capital assets, net of related debt	105,799,049	107,099,832	148,221,106	145,485,396	254,020,155	252,585,228
Restricted	30,173,266	11,360,665	14,823,500	15,616,902	44,996,766	26,977,567
Unrestricted	13,089,868	22,618,398	12,425,961	12,527,727	25,515,829	35,146,125
Total net assets	\$ 149,062,183	\$ 141,078,895	\$ 175,470,567	\$ 173,630,025	\$ 324,532,750	\$ 314,708,920

An additional portion of the City's net assets, \$44,996,766 or 13.9 percent, represents resources that are subject to external restrictions on how they may be used. Restricted net assets include amounts set aside for endowments, debt service, debt-financed projects, long-term advances, and externally mandated commitments. The remaining balance of *unrestricted net assets*, \$25,515,829 or 8.3 percent may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The government's net assets increased \$9,823,830 or 3.12% during the current fiscal year. This net increase was a combination of a \$7.9 million increase in governmental activities net assets and a \$1.8 million increase in business-type activity net assets, attributable largely to the following:

Management's Discussion and Analysis

- **Governmental activities.** On a modified accrual (or near-term, budgetary focus) basis, the governmental funds fund balances decreased by \$1.7 million. However, as a result of long-term considerations for the full accrual, long-term perspective of the government-wide statements, \$9.6 million in adjustments offset the \$1.7 million decrease. The most notable accounting adjustment was for capital purchases made in 2005, amounting to \$17 million, which are considered expenditures in the short-term focus of governmental funds but have no effect, other than depreciation, on the total net assets for the long-term focused government-wide statements.
- **Business-type activities.** The increase of net assets in the business-type activities was attributable to the operating loss in the Wastewater fund of \$1.2 million, \$4.1 million of capital contributions to the Water system (revenues received for extension and improvements to the water distribution system that are paid for by an outside party, such as a homeowner, or developer) received in 2005, and a \$599,532 operating gain in the Water fund attributed to this gain.

Management's Discussion and Analysis

City of Kalamazoo's Changes in Net Assets

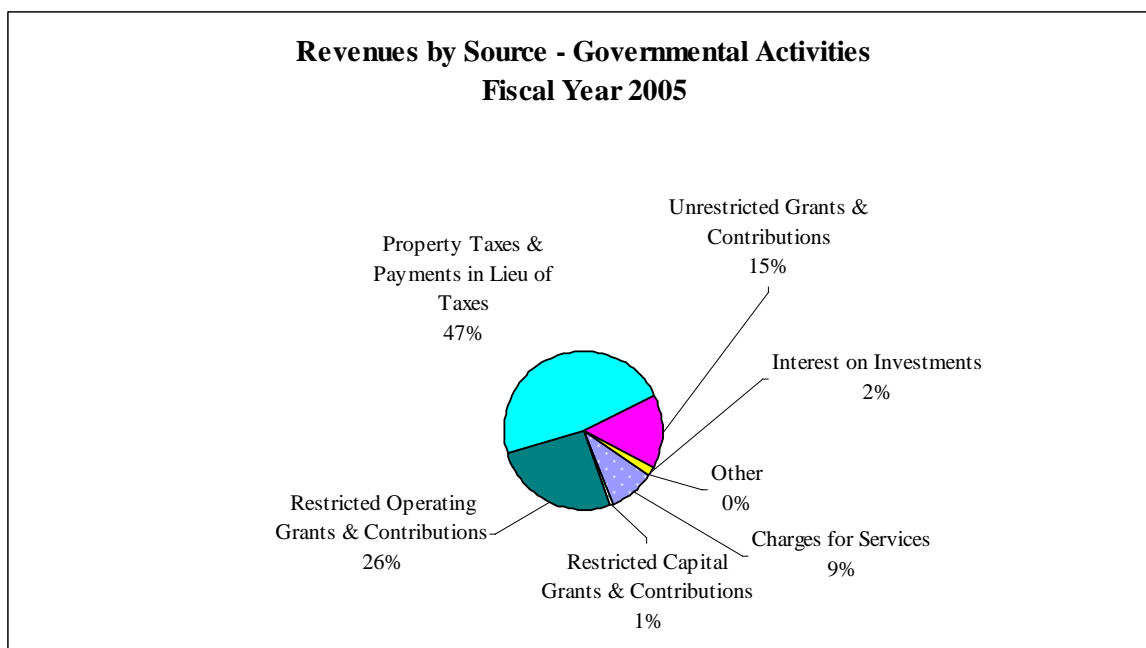
	Governmental activities		Business-type activities		Total	
	2005	2004	2005	2004	2005	2004
Revenue:						
Program revenue:						
Charges for services	\$ 6,496,443	\$ 5,319,140	\$ 27,371,600	\$ 27,687,183	\$ 33,868,043	\$ 33,006,323
Operating grants and contributions	18,002,937	16,811,523	1,422,097	236,315	19,425,034	17,047,838
Capital grants and contributions	479,577	532,334	6,316,121	5,674,667	6,795,698	6,207,001
General revenue:						
Property taxes	33,066,650	31,803,955	-	-	33,066,650	31,803,955
Grants and contributions not restricted to specific programs	10,461,886	10,499,478	(8,646)	29,593	10,453,240	10,529,071
Other	1,173,843	576,217	21,168	26,791	1,195,011	603,008
Total revenue	69,681,336	65,542,647	35,122,340	33,654,549	104,803,676	99,197,196
Expenses:						
General government	5,307,982	5,354,674	-	-	5,307,982	5,354,674
Public safety	30,897,982	32,320,014	-	-	30,897,982	32,320,014
Economic Development	902,612	982,743	-	-	902,612	982,743
Community Dev and Planning	6,363,525	7,676,008	-	-	6,363,525	7,676,008
Parks	905,279	1,039,470	-	-	905,279	1,039,470
Recreation	1,583,015	1,670,349	-	-	1,583,015	1,670,349
Public works	5,532,502	6,240,100	-	-	5,532,502	6,240,100
Streets	7,085,322	6,883,911	-	-	7,085,322	6,883,911
Interest on long-term debt	3,119,829	2,582,855	-	-	3,119,829	2,582,855
Wastewater	-	-	20,770,198	19,904,896	20,770,198	19,904,896
Water	-	-	11,392,060	10,936,547	11,392,060	10,936,547
Other	-	-	1,119,540	195,459	1,119,540	195,459
Total expenses	61,698,048	64,750,124	33,281,798	31,036,902	94,979,846	95,787,026
Increase in net assets before transfers	7,983,288	792,523	1,840,542	2,617,647	9,823,830	3,410,170
Transfers	-	(319,342)	-	319,342	-	-
Change in net assets	7,983,288	473,181	1,840,542	2,936,989	9,823,830	3,410,170
Net assets - beginning, as restated	141,078,895	140,605,714	173,630,025	170,693,036	314,708,920	311,298,750
Net assets - end of year	\$ 149,062,183	\$ 141,078,895	\$ 175,470,567	\$ 173,630,025	\$ 324,532,750	\$ 314,708,920

Management's Discussion and Analysis

Governmental activities. Governmental activities increased the City's net assets \$7.9 million, accounting for 81.3 percent of the total growth in the government's net assets. Key elements of this increase are as follows:

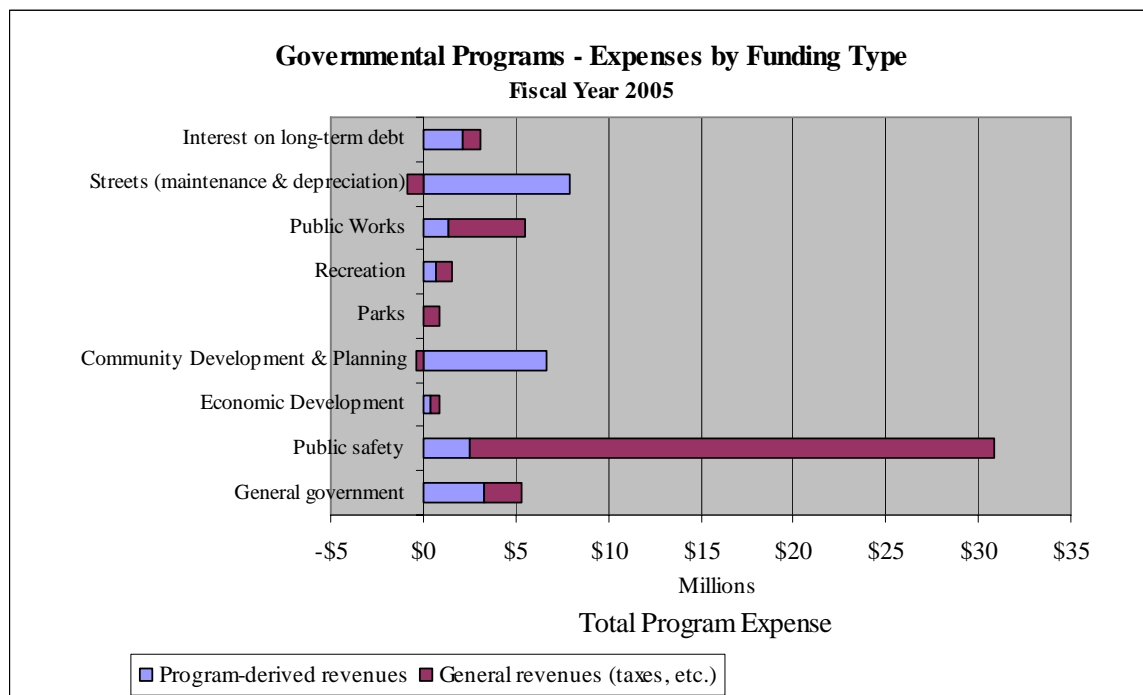
- Property taxes increased by \$1,162,393 or 3.7%, on a non-GAAP, budgetary basis from 2004.
- Interest earnings increased by \$606,260 or 118% from favorable investment activity.

While some revenue for governmental activities is derived from charges specific to programs, the majority of programs are generally subsidized by tax revenues and/or by intergovernmental aid. In total, for fiscal year 2005, 65% of governmental program expenses were funded by a combination of property taxes, revenue sharing from the State of Michigan, interest earnings, and reserves as depicted on the following chart.



Management's Discussion and Analysis

The following chart depicts the total expenses for each governmental program for the City of Kalamazoo and the degree to which they are self-supporting and/or subsidized.

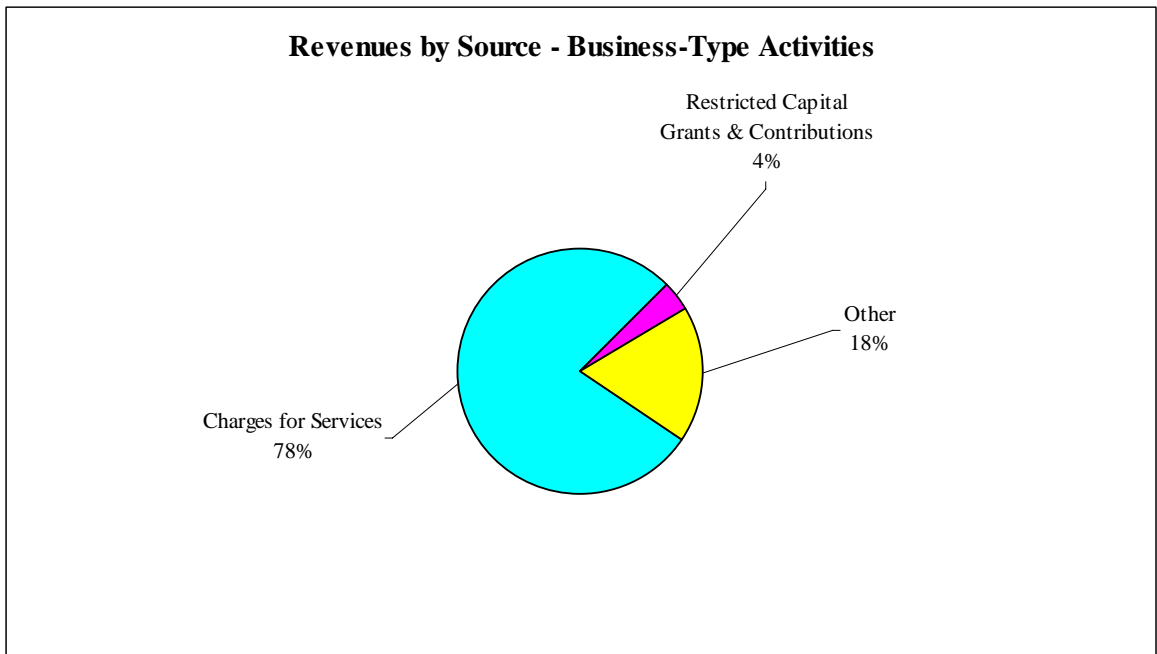


Business-type activities. Business-type activities increase the City's net assets by \$1.8 million, accounting for 18.7 percent of the total growth in the government's net assets. The key element of this increase follows:

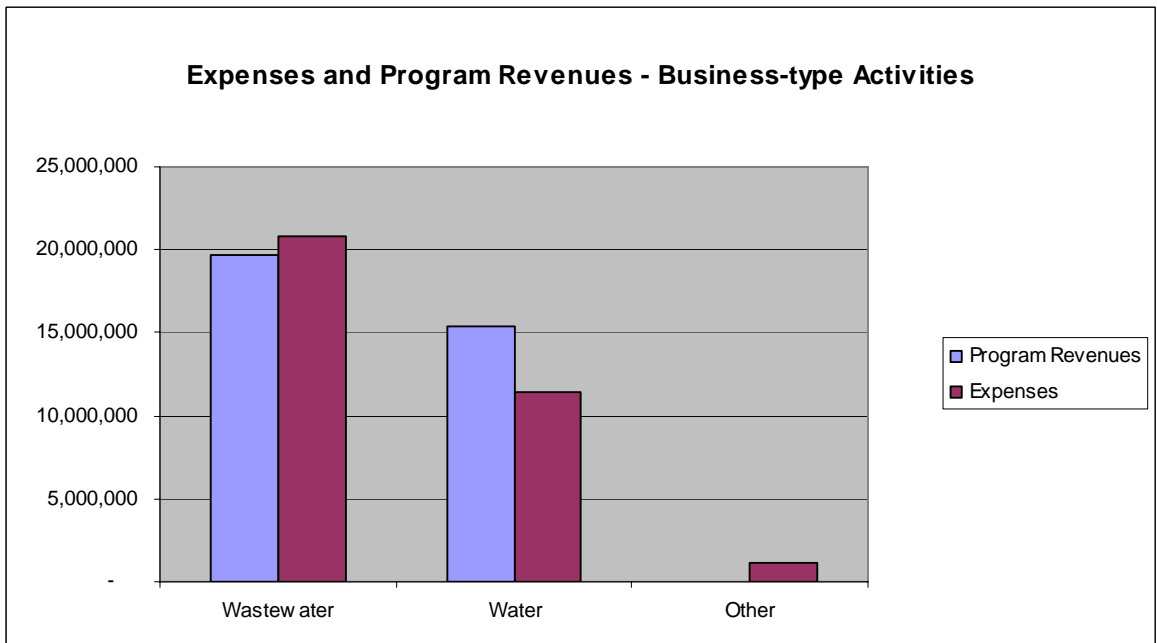
- Capital contributions emerged as a major revenue source for the Water fund during the current fiscal year, producing \$4.1 million in revenue.

In contrast to governmental activities, business-type activities are funded through user fees and charges. Business-type activities of the City include wastewater, water, and a farmer's market. In 2005, 78% of business-type activity revenues were derived from charges for services, 4% were funded through capital grants and contributions, with the remaining 18% attributable to other revenue sources, as depicted in the following chart:

Management's Discussion and Analysis



The following chart depicts the total expenses for each business-type activity for the City of Kalamazoo and the degree to which they are self-supporting and/or subsidized.



Management's Discussion and Analysis

Financial Analysis of the Government's Funds.

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$26,539,532, a decrease of \$1,703,912 in comparison with the prior year. Approximately 28.8% of this total amount \$7,655,962 constitutes *unreserved, undesignated fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved or designated* to indicate that it is not available for new spending because it has already been committed 1) for encumbrances, inventories, and prepaid expenditures, 2) advances to other funds and component units, 3) generate income to pay for the municipal cemetery and future recreation programs, and 4) designated for use for next year's expenditures.

General Fund. The general fund is the chief operating fund of the City of Kalamazoo. Because of the City's property tax installment payment option provided for in the City charter, some property tax collections, \$5,322,350 for 2005, are collected after the time period allowed for revenue recognition by Generally Accepted Accounting Principals (GAAP). As a result the City reports two fund balances in the fund financial statements, a "GAAP" fund balance and a "non-GAAP, budgetary basis" fund balance.

The City has a formal unreserved, undesignated fund balance policy target, using the *non-GAAP, budgetary* fund balance, of 15% of total general fund revenues and other financing sources. At the end of the current fiscal year, the non-GAAP, *budgetary unreserved, undesignated fund balance* for the general fund was \$6,766,574, or 13.7% of total general fund revenues and other financing sources. For the purpose of the City's policy, amounts designated as budgeted for use in the next year, \$714,314 for 2006 is added to the unreserved, undesignated fund balance, resulting in a fund balance of \$7,480,888, or 15%.

The GAAP unreserved, undesignated fund balance for the general fund was \$1,444,224 or 2.9% of total general fund revenues and other financing sources. This was a \$431 thousand increase from 2004 and resulted from a combination of a planned increase in the non-GAAP, budgetary fund balance; a \$394 thousand increase in property tax deferrals, which results in less property tax revenues being recognized; and a \$714 thousand reservation of fund balance for operational uses in 2006.

Management's Discussion and Analysis

The fund experienced a \$1,581,341 *non-GAAP, budgetary* fund balance increase during 2005. However, the increase was actually \$2,971,182, since fund balance was budgeted to decrease by \$1.3 million in 2005. Revenues and other financing sources came in \$891,964 more than the amended budget. Expenditures and other financing uses were \$2,079,219 below budget, resulting in the favorable variance. However, \$1,328,733 of the positive expenditure and other financing source variance is being carried forward for spending in 2006 (recorded as reservations and designations of fund balance on the balance sheet). The General fund experienced an overall positive variance of \$2,971,182 between final amended budgeted expenditures and actual final results on a *non-GAAP budgetary basis*.

Major Streets Special Revenue Fund. The Major Streets Fund is used to account for construction, maintenance, and repair of the City's major streets. It is set up as a separate fund due to receipt of State of Michigan gas & weight tax distributions, which must be used solely for those purposes. This fund also receives operating transfers from the City's General Fund and Capital Improvement Projects Fund.

The fund experienced a \$2,549,577 decrease in fund balance in 2005. Unreserved, undesignated fund balance decreased by \$532,035 to \$49,232 or 0.7% of revenues and other financing sources, as a result of property acquisition for the West Michigan Avenue widening project. The fund experienced a \$2.1 million positive amended budget variance; however, it is being carried forward to 2006 for unfinished roadway projects.

Local Streets Special Revenue Fund. The Local Streets Fund is used to account for construction, maintenance, and repair of the City's local streets. Like the Major Streets Fund, it is set up as a separate fund due to receipt of State of Michigan gas & weight tax distributions, which must be used solely for those purposes. This fund also receives operating transfers from the City's Major Streets Fund and Capital Improvement Projects Fund.

The fund experienced a \$1,230,270 decrease in fund balance in 2005 due to completed road projects carried forward from 2004; however, there was a \$2,042,344 decrease in unreserved, undesignated fund balance to \$184,683, or 0.09% of revenues and other financing sources. The fund experienced an \$844,996 positive budget variance; however, it is being carried forward to 2006 for unfinished roadway projects.

Solid Waste Special Revenue Fund. The Solid Waste fund is used to account for funds provided by a special tax millage for the collection and removal of solid waste.

Like the General Fund, the Solid Waste fund balance is reported using two bases: the non-GAAP, budgetary basis and the GAAP basis. The fund's *non-GAAP, budgetary* unreserved, undesignated fund balance increased \$356,511 during the course of 2005 to \$849,303. The GAAP basis unreserved, undesignated fund balance is \$344,736 (the entire fund balance is being carried forward for use in 2006). The increase in the non-GAAP, budgetary fund balance was attributable mainly to inflationary increases in property tax revenues in 2005 and decreased expenditures.

Management's Discussion and Analysis

Neighborhood and Community Development Special Revenue Fund. This fund is used to account for a variety of federal award programs, most notably the City's Community Development Block, HOME, and Emergency Shelter Grants.

During 2005, the fund balance decreased \$47,664 to \$162,834, which was mainly due to activity in demolition revolving loans.

Capital Improvement Projects Fund. This fund is used to account for major governmental capital projects. Resources of the fund generally include General Fund transfers, grants, and bond proceeds.

The Capital Improvement Projects fund balance increased \$477,523 in 2005 to \$6,088,049. Of that amount, \$169,934 was undesignated and unreserved (available for future appropriation). The increase in total fund balance was attributable to unspent project amounts being carried forward for use in 2006.

Cork Street Landfill Cap Construction Fund. This fund is used to account for remedial response activities for an EPA Brownfield Superfund landfill site. The landfill has been closed for years, but due to the bankruptcy of the final owners, the City, along with others, was named as a "Potentially-responsible Party" (PRP) and ordered to perform remedial action on the site, including the construction of a landfill cap. Resources for this fund are comprised of payments made by the City and the other PRP's, lawsuit settlements, and grants.

During 2005, the fund balance for the Cork Street Landfill Cap Construction fund decreased \$199,559 from 2004 to \$1,086,504, due mainly to remedial activity that took place during the year.

Building Authority Debt Service Fund. This debt service fund is used to account for the debt service activity of the Kalamazoo Building Authority, a blended component unit. Resources consist of the collection of lease payments by the Downtown Development Authority, as well as transfers from other funds for Building Authority-related debt repayment. While this fund generally operates on a cash-in, cash-out basis, it is designated as a major fund because of the relative size of assets and liabilities as compared to other funds.

During the year, the fund balance increased \$245,092 to \$245,300. The fund balance is comprised of accumulated interest earnings and bond proceeds, which will be used to offset debt service payments in 2005.

Other (Non-major) Governmental Funds. During the year, the combined fund balance for the City's non-major governmental funds increased \$103,270 to \$9,389,306. The majority of the \$9.3 million fund balance was attributable to special revenue funds used for economic activities (\$2.9 million), drug forfeitures from the Kalamazoo Valley Enforcement Team (\$1.1 million), and endowments held for recreational and cemetery perpetual care purposes (\$4.8 million). Because resources for these funds are, for the most part, restricted to specific purposes, their fund balances are not available for general government use.

Management's Discussion and Analysis

Proprietary Funds. The City's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail.

Wastewater Fund. *Unrestricted* net assets (the amount available for future spending) of the City's Wastewater fund amounted to \$5,325,210 as of December 31, 2005. The fund had a decrease in total net assets for the year of \$1,128,655.

Contributing to the decrease in total net assets was an operating loss of \$1,216,353. An operating loss was anticipated for 2005; however, operational savings helped to reduce the anticipated loss. Also, revenue of \$1.3 million for true-up charges was booked in 2004. The true-up has been a requirement of the Wastewater Utility since 1999. This adjustment computes the difference between projected and actual cost of service for outside city customers. The results of the study completed in 2004 showed that an additional \$1.3 million should have been collected. Actual implementation of the true-up collections completed in 2005 resulted in a reduction of \$840 thousand in revenues.

The City has a financial policy, which targets minimum levels for certain reserves in the Wastewater Fund. The Operating Reserve (working capital) should be at least 90 days of budgeted operation & maintenance expense; the Emergency Capital Reserve should be at least equal to the prior year's depreciation expense; and the Environmental Clean-Up Reserve should be equal to the estimated present value cost of known, quantifiable and probable clean-up liabilities. As of December 31, 2005, the balances in these reserves were at or above the minimum levels.

Water Fund. *Unrestricted* net assets (the amount available for future spending) of the City's Water fund amounted to \$5,598,384 as of December 31, 2005. The fund had an increase in total net assets for the year of \$4,001,947 and a decrease in unrestricted net assets of \$667,796.

The increase in net assets is primarily attributable to \$4.1 million of capital contributions (revenues received for extensions and improvements to the water distribution system that are paid for by an outside party, such as a homeowner or developer) received in 2005. Because that amount was used to amount purchase capital assets, it increased the amount of net assets reported as *Invested in capital assets, net of related debt*, thereby resulting in an increase by that amount in *unrestricted net assets*.

The Water Fund experienced an operating gain of \$599,532. The gain is mostly attributed to an overall 3% increase in water rates. Although expenses were on target, operating revenues were higher than anticipated, especially for outside city customers.

The City has a financial policy, which targets minimum levels for certain reserves in the Water Fund. The Operating Reserve (working capital) should be at least 90 days of budgeted operation & maintenance expense. As of December 31, 2005, the Operating Reserves were at or above the minimum levels. The Emergency Capital Reserve is required to be at least equal to the prior year's depreciation expense. As of December 31, 2005, the balance was at the prior year's depreciation expense.

Management's Discussion and Analysis

Other Enterprise Funds. During the year, the combined net assets for the City's non-major proprietary funds decreased \$1,086,256 to \$126,159. The majority of the net asset balance decrease, \$1,076,426 was attributable transferring the City's Intermodal Transportation fund assets to the City's component unit, Metro Transit. The City Market (farmers' market) Fund, had a \$126,159 net asset balance, the unrestricted (amount not tied up in fixed assets) portion being \$31,772.

General Fund Budgetary Highlights

During the year, there was a \$786,434 increase in appropriations between the original and final amended general fund budget adopted by the City Commission. Following are the main components of the increase:

- A mid-year budget increase of \$275,000 to the original budget was transferred to the capital improvement fund for various capital projects.
- Unspent budget appropriations in the amount of \$389,517 from 2004 under the City's budgetary policies were re-appropriated in 2005.

Capital Asset and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business-type activities as of December 31, 2005, totaled \$335.2 million (net of accumulated depreciation). This investment in capital assets includes land; land improvements; buildings; water, wastewater, and storm sewer systems; vehicles and equipment; park facilities; roads; highways; and bridges. Net capital assets for governmental activities increased \$9.8 million, or 6%, while net business-type activity net assets increased \$2.4 million, or 1.4%, for business-type activities.

Major capital asset events during the current fiscal year included the following:

- Mobile dispatch system upgrade in the amount of \$594 thousand
- Construction, reconstruction, or widening of streets and sidewalks in the amount of \$5.3 million.
- Completion of the 6th Street Water Tower in the amount of \$758 thousand.
- Reconstruction of Ramp 3 (Gilmore Ramp) in the amount of \$10.1 million.

Additional information on the City's capital assets, including detailed changes from 2004, can be found in Note III C on pages 62-64 of this report.

Management's Discussion and Analysis

Long-term debt. In total, the City's long-term liabilities increased \$ 1,596,692, or 1.5% to \$94,573,052.

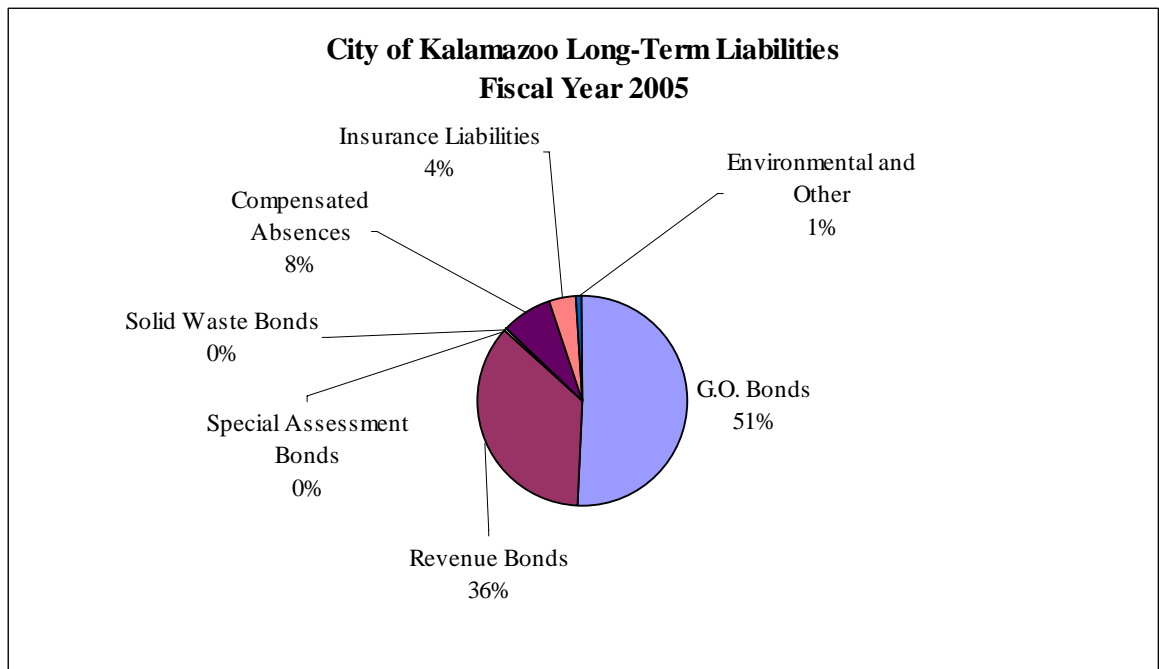
At the end of the current fiscal year, the City had total *bonded* debt outstanding of \$82,141,009, an increase from 2004 of \$3,195,924. Of this amount, \$47,676,009 was comprised of debt backed by the full faith and credit of the government ("general obligation debt"). The remainder of the City's bonded debt represented \$34,085,000 in bonds secured solely by specified revenue sources ("revenue bonds"), and \$380,000 in bonds supported by a special assessment levy.

Michigan statutes limit the amount of *general obligation* debt a governmental entity may issue to 10% of its total state equalized valuation. The current debt limitation for the City was \$182,904,652, which was significantly in excess of the City's \$47.6 million in outstanding general obligation debt.

During the current fiscal year, the City issued three new bonds: \$17,885,000 of new general obligation bonds and \$260,000 installment purchase contract. The general obligation bonds were issued to fund the public sectors commitment to the \$27 million Cinema/Ramp Project. In addition, \$7,180,000 of its existing debt was defeased to take of advantage of favorable interest rates. Also, \$1,035,000 existing general obligation debt was defeased as a result of selling its Public Works Hatfield facility and the reconstruction of parking ramp 3.

Also contributing to the overall change in City long-term liabilities was a \$260,233 decrease in insurance liabilities, the result of a decrease in long-term workers compensation claims, and a \$954,694 decrease in compensated absences.

The major categories of long-term liabilities are depicted in the following graph:



Management's Discussion and Analysis

Additional information on the City's long-term debt, including comparisons by category to 2004, can be found in note disclosures on pages 65-71.

Bond Ratings

The following chart depicts the City's credit rating for the various outstanding debt and the different rating agencies as of December 31, 2005.

	<u>Fitch</u>	<u>S&P</u>
Water and wastewater revenue bonds	AA-	A+
General obligation limited tax bonds	AA	AA
General obligation unlimited tax bonds	AA	AA

Economic Factors and Next Year's Budgets and Rates

The City of Kalamazoo is a mid-sized, urban Michigan municipality. Like many other urban communities, the City is "built-out", meaning its land, for the most part, is developed, and that other local units of government, which prohibits any boundary expansion, surround it. While proactive in its economic development policies (see the Transmittal Letter for a more in-depth description), the City faces challenges common of most aging urban communities.

The City is home to the main campuses of Western Michigan University, from which the City derives immense economic and intellectual benefits. However, because of the university's location, as well as being the County seat, 40% of the City's land is considered non-taxable. Furthermore, the voters to the State of Michigan have, over the years, enacted two property tax growth control measures, the "Headlee Amendment" and "Proposal A". These measures have the effect of limiting property tax revenue growth to rate of inflation, which has been unusually low the past several years.

Since 2002, the City and other Michigan local governments have experienced a significant reduction in state revenue sharing. As a result of above-mentioned factors, the City levies the maximum charter millage rate. Reductions in state revenue sharing, a cumulative amount of \$9.3 million since 2000, combined with the property tax limitation measures and the large amount of tax-exempt properties, have presented significant challenges to the City in maintaining service levels.

To address these fiscal challenges, the City has enacted a number of budgeting measures over the past several years, including reductions in staffing and certain support area service levels. The 2006 fiscal year budget increases operational General Fund spending by 1.23% from fiscal year 2005 amended budget, despite contractual wage increases and the escalating cost of health care, while transferring a significant amount, \$3 million or 5.9% of total expenditures, for capital project needs.

Management's Discussion and Analysis

In light of the budget cuts experienced during the past several years and an expected turnaround in the state and national economies, the City felt it prudent to “dip into” its General Fund reserves and make an exception to its long-standing policy of maintaining a fund balance equal to 15% of revenues and other financing sources. For fiscal year 2006, the ending fund balance is budgeted to come in at 12.39% of revenues and other financing sources. However, the City Commission has adopted a formal commitment, contained in its 2006 Budget Resolution, that any additional resources (surplus revenue receipts) that become available will be used to restore the fund balance back to the 15% level before being appropriated for any other purpose. The 2006 budget seeks to once again maintain basic services and infrastructure, economic growth, neighborhood and community development, affordable housing and expansion of the resource base.

In 2006, the City will begin a strategic planning initiative that will result in a comprehensive 5-year fiscal plan, which will form the foundation for a transformation from budgeting based on “allocation of resources” to an outcomes based approach. This new approach will focus on positively impacting the quality of life for all citizens of the Kalamazoo community. The fiscal plan will include components to ensure a fiscally sustainable organization, which is positioned to increase the organizational capacity, including efficiency and effectiveness in the delivery of core services. Building on the “Blueprint for Action” completed in 2001, and updated in 2006, the 5-year fiscal plan will continue to utilize a high level of community involvement to obtain a comprehensive assessment of our community's expectations and resources.

Property tax millage rates are budgeted to remain the same in fiscal year 2006.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City's Management Services Director, 241 W. South Street, Kalamazoo, Michigan 49007.

CITY OF KALAMAZOO, MICHIGAN

Statement of Net Assets

December 31, 2005

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 21,172,911	\$ 6,803,342	\$ 27,976,253	\$ 3,989,164
Investments	4,006,995	-	4,006,995	-
Receivables, net	33,092,372	5,502,991	38,595,363	8,767,088
Internal balances	(1,311,159)	1,311,159	-	-
Prepaid items and other assets	856,457	1,962,370	2,818,827	467,120
Restricted cash	2,050,735	2,594,749	4,645,484	1,796,143
Restricted investments	-	13,725,714	13,725,714	1,151,263
Investments with agents	2,569,670	-	2,569,670	-
Capital assets not being depreciated	40,123,802	7,367,437	47,491,239	10,406,058
Capital assets being depreciated, net	124,193,797	163,543,669	287,737,466	8,829,224
Total assets	226,755,580	202,811,431	429,567,011	35,406,060
Liabilities				
Accounts payable and accrued expenses	7,137,621	2,771,090	9,908,711	14,432,232
Unearned revenue	552,498	-	552,498	1,002,090
Long-term liabilities:				
Due within one year	7,571,263	1,479,972	9,051,235	468,584
Due in more than one year	62,432,015	23,089,802	85,521,817	577,984
Total liabilities	77,693,397	27,340,864	105,034,261	16,480,890
Net assets				
Invested in capital assets, net of related debt	105,799,049	148,221,106	254,020,155	17,625,828
Restricted net assets:				
Non-expendable restricted net assets	2,621,022	-	2,621,022	-
Expendable restricted net assets:				
Debt service	7,769,289	-	7,769,289	-
Major and local street projects	7,080,937	-	7,080,937	-
Economic development projects	3,747,178	-	3,747,178	-
Other purposes (externally imposed)	8,954,840	14,823,500	23,778,340	-
Unrestricted	13,089,868	12,425,961	25,515,829	1,299,342
Total net assets	\$ 149,062,183	\$ 175,470,567	\$ 324,532,750	\$ 18,925,170

The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO, MICHIGAN

Statement of Activities

For the Year Ended December 31, 2005

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions, and Restricted Interest	Capital Grants and Contributions
Primary government				
Governmental activities:				
General government	\$ 5,307,982	\$ 2,507,300	\$ 777,709	\$ -
Public safety (combined police & fire)	30,897,982	317,258	1,709,973	479,577
Economic development	902,612	881	409,452	-
Community development and planning	6,363,525	2,985,821	3,723,189	-
Parks	905,279	21,349	350	-
Recreation	1,583,015	341,362	315,501	-
Public works	5,532,502	268,767	1,085,868	-
Streets (maintenance & depreciation)	7,085,322	53,705	7,866,426	-
Interest on long-term debt	3,119,829	-	2,114,469	-
Total governmental activities	<u>61,698,048</u>	<u>6,496,443</u>	<u>18,002,937</u>	<u>479,577</u>
Business-type activities:				
Wastewater	20,770,198	18,424,157	1,189,455	43,072
Water	11,392,060	8,914,883	232,642	6,273,049
Other	1,119,540	32,560	-	-
Total business-type activities	<u>33,281,798</u>	<u>27,371,600</u>	<u>1,422,097</u>	<u>6,316,121</u>
Total primary government	<u>\$ 94,979,846</u>	<u>\$ 33,868,043</u>	<u>\$ 19,425,034</u>	<u>\$ 6,795,698</u>
Component units				
Development authorities	\$ 8,408,460	\$ 2,358,655	\$ 1,625,840	\$ 1,089,547
Public transportation	12,528,185	1,826,225	8,002,658	9,262,578
Golf courses	1,579,851	1,386,071	1,262	-
Total component units	<u>\$ 22,516,496</u>	<u>\$ 5,570,951</u>	<u>\$ 9,629,760</u>	<u>\$ 10,352,125</u>

General revenues:

Property taxes

Grants and contributions not restricted

to specific programs

Unrestricted investment earnings

Gain (loss) on disposal of capital assets

Contributions to permanent funds

Total general revenues and contributions

Change in net assets

Net assets, beginning of year

Net assets, end of year

Net (Expense) Revenue and Changes in Net Assets

Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (2,022,973)	\$ -	\$ (2,022,973)	\$ -
(28,391,174)	-	(28,391,174)	-
(492,279)	-	(492,279)	-
345,485	-	345,485	-
(883,580)	-	(883,580)	-
(926,152)	-	(926,152)	-
(4,177,867)	-	(4,177,867)	-
834,809	-	834,809	-
(1,005,360)	-	(1,005,360)	-
(36,719,091)	-	(36,719,091)	-
-	(1,113,514)	(1,113,514)	-
-	4,028,514	4,028,514	-
-	(1,086,980)	(1,086,980)	-
-	1,828,020	1,828,020	-
(36,719,091)	1,828,020	(34,891,071)	-
-	-	-	(3,334,418)
-	-	-	6,563,276
-	-	-	(192,518)
-	-	-	3,036,340
33,066,650	-	33,066,650	5,578,358
10,461,886	(8,646)	10,453,240	-
1,119,704	16,454	1,136,158	-
-	4,714	4,714	(43,494)
54,139	-	54,139	-
44,702,379	12,522	44,714,901	5,534,864
7,983,288	1,840,542	9,823,830	8,571,204
141,078,895	173,630,025	314,708,920	10,353,966
\$ 149,062,183	\$ 175,470,567	\$ 324,532,750	\$ 18,925,170

CITY OF KALAMAZOO, MICHIGAN
Balance Sheet
Governmental Funds
December 31, 2005

	General	Major Streets	Local Streets	Solid Waste
<u>ASSETS</u>				
Assets				
Cash and cash equivalents	\$ 2,632,139	\$ 3,058,488	\$ 1,091,355	\$ 434,124
Investments	-	-	-	-
Receivables:				
Taxes	6,891,017	-	-	588,800
Notes	121,000	-	-	-
Special assessments	12,918	-	12,230	-
Accrued interest	47,564	-	7,967	-
Other	1,562,570	1,810,368	29	-
Due from other funds	527,443	387,065	756,790	1,566
Due from component units	241,261	-	-	-
Due from other governments	143,473	741,784	178,833	-
Advances to other funds	340,000	-	-	-
Advances to component units	-	1,705,874	-	-
Prepaid items and other assets	40,286	-	1,499	-
Restricted cash	-	-	-	-
Investments with agents	-	-	-	-
<u>TOTAL ASSETS</u>	<u>\$ 12,559,671</u>	<u>\$ 7,703,579</u>	<u>\$ 2,048,703</u>	<u>\$ 1,024,490</u>
<u>LIABILITIES AND FUND BALANCE</u>				
Liabilities				
Accounts payable	\$ 509,870	\$ 952,474	\$ 275,900	\$ 81,628
Accrued and other liabilities	1,106,758	12,653	2,724	5,793
Due to other funds	656,882	995,639	424,314	87,766
Due to component units	21,329	-	-	-
Due to other governments	4,078	-	-	-
Advances from other funds	-	-	7,641	-
Deposits payable	13,900	-	-	-
Deferred revenue	6,889,456	1,210,355	20,076	489,668
Total liabilities	9,202,273	3,171,121	730,655	664,855
Fund balance				
Reserved for:				
Encumbrances	204,155	2,777,352	363,639	14,899
Prepaid items	40,286	-	1,499	-
Long-term receivables	-	-	-	-
Advances to other funds	340,000	-	-	-
Advances to component unit	-	1,705,874	-	-
Cemetery perpetual care	-	-	-	-
Recreational activities	-	-	-	-
Unreserved:				
Designated for subsequent years' expenditures	1,328,733	-	768,227	-
Designated for subsequent years' expenditures, reported in nonmajor special revenue funds	-	-	-	-
Undesignated	1,444,224	49,232	184,683	344,736
Undesignated, reported in nonmajor:				
Special revenue funds	-	-	-	-
Debt service funds	-	-	-	-
Capital projects funds	-	-	-	-
Permanent funds	-	-	-	-
Total fund balance	3,357,398	4,532,458	1,318,048	359,635
<u>TOTAL LIABILITIES AND FUND BALANCE</u>	<u>\$ 12,559,671</u>	<u>\$ 7,703,579</u>	<u>\$ 2,048,703</u>	<u>\$ 1,024,490</u>

The accompanying notes are an integral part of these financial statements.

Neighborhood and Community Development	Building Authority Debt Service	Cork Street Landfill Cap Construction	Capital Improvements Projects	Other Governmental Funds	Total
\$ 270,963	\$ 293,583	\$ -	\$ 4,123,652	\$ 2,745,607	\$ 14,649,911
-	-	-	-	4,006,995	4,006,995
-	-	-	-	-	7,479,817
6,297,826	-	-	-	727,980	7,146,806
-	-	-	27,616	170,381	223,145
-	-	-	-	19,016	74,547
262,718	37,588	6,055	400,000	671,373	4,750,701
260	5	-	815,493	124,383	2,613,005
-	7,128,598	-	100,000	309,309	7,779,168
521,946	-	-	-	191,071	1,777,107
-	-	-	7,641	-	347,641
-	-	-	-	1,986,921	3,692,795
-	-	-	-	-	41,785
-	-	2,050,735	-	-	2,050,735
-	-	-	1,665,713	903,957	2,569,670
<u>\$ 7,353,713</u>	<u>\$ 7,459,774</u>	<u>\$ 2,056,790</u>	<u>\$ 7,140,115</u>	<u>\$ 11,856,993</u>	<u>\$ 59,203,828</u>

\$ 130,286	\$ 2,250	\$ -	\$ 851,797	\$ 73,885	\$ 2,878,090
17,379	-	-	-	65,492	1,210,799
366,333	83,625	67,281	140,759	292,708	3,115,307
-	-	-	16,400	104,934	142,663
14,513	-	-	494	-	19,085
-	-	-	-	-	7,641
73,116	-	903,038	-	2,904	992,958
6,589,252	7,128,599	(33)	42,616	1,927,764	24,297,753
<u>7,190,879</u>	<u>7,214,474</u>	<u>970,286</u>	<u>1,052,066</u>	<u>2,467,687</u>	<u>32,664,296</u>
32,624	-	24,200	1,514,073	109,327	5,040,269
-	-	-	-	-	41,785
-	-	-	400,000	-	400,000
-	-	-	7,641	-	347,641
-	-	-	100,000	1,986,921	3,792,795
-	-	-	-	1,735,160	1,735,160
-	-	-	-	885,862	885,862
-	245,300	-	3,896,401	-	6,238,661
-	-	-	-	401,397	401,397
130,210	-	1,062,304	169,934	-	3,385,323
-	-	-	-	1,835,840	1,835,840
-	-	-	-	162,006	162,006
-	-	-	-	23,561	23,561
-	-	-	-	2,249,232	2,249,232
<u>162,834</u>	<u>245,300</u>	<u>1,086,504</u>	<u>6,088,049</u>	<u>9,389,306</u>	<u>26,539,532</u>
<u>\$ 7,353,713</u>	<u>\$ 7,459,774</u>	<u>\$ 2,056,790</u>	<u>\$ 7,140,115</u>	<u>\$ 11,856,993</u>	<u>\$ 59,203,828</u>

CITY OF KALAMAZOO, MICHIGAN
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets
of Governmental Activities on the Statement of Net Assets
December 31, 2005

Fund balances - total governmental funds	\$ 26,539,532
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources, and therefore not reported in the funds.

Add: capital assets	268,917,289
Subtract: accumulated depreciation	(106,405,688)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add: deferred property taxes	5,812,018
Add: other deferred revenues	17,950,837

Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The assets and liabilities of certain internal service funds are included in governmental activities in the statement of net assets.

Add: net assets of governmental activities accounted for in internal service funds	4,159,994
Subtract: net assets allocated to business-type activities from governmental-type activity internal service funds	(1,470,595)
Subtract: net assets allocated to component units from governmental-type activity internal service funds	(385,597)

Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.

Subtract: bonds and installment purchase contracts payable	(59,451,009)
Subtract: accrued interest on long-term debt	(548,682)
Subtract: compensated absences	(5,634,016)
Subtract: tax tribunal judgment payable	(119,045)
Subtract: environmental liabilities	(784,606)
Subtract: unamortized bond premium	(173,670)

Costs associated with the issuance of bonds are expended in the individual funds, but are capitalized and amortized over the life of the bonds in the statement of net assets.

Add: deferred charges for bond issuance costs	655,421
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Net assets of governmental activities	<u><u>\$ 149,062,183</u></u>
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The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO, MICHIGAN
Statement of Revenue, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2005

	General	Major Streets	Local Streets	Solid Waste
Revenue				
Property taxes and special assessments	\$ 29,699,850	\$ -	\$ 5,370	\$ 2,718,593
Licenses and permits	2,187,748	-	-	-
Intergovernmental revenue	11,375,426	4,708,068	1,162,004	-
Charges for services	1,129,388	-	-	-
Fines and forfeits	44,266	-	-	-
Interest and dividends	795,770	138,463	55,258	2,540
Net investment earnings	-	-	-	-
Rental of facilities	-	-	-	-
Other revenue	3,925,763	757,911	28,634	-
Total revenue	49,158,211	5,604,442	1,251,266	2,721,133
Expenditures				
Current expenditures:				
General government	8,588,226	-	-	-
Public safety (combined police & fire)	29,485,945	-	-	-
Economic development	500,000	-	-	-
Community development and planning	2,538,507	-	-	-
Parks and recreation	2,278,962	-	-	-
Public works	1,292,281	-	-	-
Cemeteries	-	-	-	-
Solid waste	-	-	-	2,109,015
Streets	-	2,307,648	1,339,553	-
Other	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest and fiscal charges	133,074	-	-	-
Capital outlay	-	4,289,796	1,129,625	-
Total expenditures	44,816,995	6,597,444	2,469,178	2,109,015
Excess (deficiency) of revenue over expenditures	4,341,216	(993,002)	(1,217,912)	612,118
Other financing sources (uses)				
Transfers in	25,300	817,000	750,000	-
Transfers out	(3,181,686)	(2,373,575)	(762,358)	(301,775)
Proceeds from the sale of capital assets	2,100	-	-	-
Issuance of long-term debt	-	-	-	-
Bond premium	-	-	-	-
Total other financing sources (uses)	(3,154,286)	(1,556,575)	(12,358)	(301,775)
Net change in fund balances	1,186,930	(2,549,577)	(1,230,270)	310,343
Fund balance, beginning of year	2,170,468	7,082,035	2,548,318	49,292
Fund balance, end of year	\$ 3,357,398	\$ 4,532,458	\$ 1,318,048	\$ 359,635

The accompanying notes are an integral part of these financial statements.

Neighborhood and Community Development	Building Authority Debt Service	Cork Street Landfill Cap Construction	Capital Improvements Projects	Other Governmental Funds	Total
\$ -	\$ -	\$ -	\$ -	\$ 48,335	\$ 32,472,148
-	-	-	-	-	2,187,748
3,423,027	-	-	336,449	1,057,524	22,062,498
45,794	-	-	-	186,918	1,362,100
-	-	-	-	368,377	412,643
3,913	10,481	29,301	195,754	314,188	1,545,668
-	-	-	-	293,975	293,975
-	2,407,576	-	-	-	2,407,576
64,197	-	1,942	1,623,303	675,126	7,076,876
3,536,931	2,418,057	31,243	2,155,506	2,944,443	69,821,232
-	-	-	-	-	8,588,226
-	-	-	-	1,191,863	30,677,808
-	-	-	-	539,477	1,039,477
3,548,150	-	-	-	276,005	6,362,662
-	-	-	-	261,044	2,540,006
-	-	-	-	-	1,292,281
-	-	-	-	571,613	571,613
-	-	-	-	-	2,109,015
-	-	-	-	-	3,647,201
-	92,747	-	-	-	92,747
-	10,465,000	-	-	3,289,076	13,754,076
-	2,280,772	-	-	901,610	3,315,456
-	-	230,802	12,931,928	59	18,582,210
3,548,150	12,838,519	230,802	12,931,928	7,030,747	92,572,778
(11,219)	(10,420,462)	(199,559)	(10,776,422)	(4,086,304)	(22,751,546)
-	1,178,679	-	3,116,307	4,579,361	10,466,647
(36,445)	-	-	(2,588,595)	(389,787)	(9,634,221)
-	1,593,808	-	300,631	-	1,896,539
-	7,725,000	-	10,420,000	-	18,145,000
-	168,067	-	5,602	-	173,669
(36,445)	10,665,554	-	11,253,945	4,189,574	21,047,634
(47,664)	245,092	(199,559)	477,523	103,270	(1,703,912)
210,498	208	1,286,063	5,610,526	9,286,036	28,243,444
\$ 162,834	\$ 245,300	\$ 1,086,504	\$ 6,088,049	\$ 9,389,306	\$ 26,539,532

CITY OF KALAMAZOO, MICHIGAN
Reconciliation of the Statement of Revenue, Expenditures
and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2005

Net change in fund balances - total governmental funds \$ (1,703,912)

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	17,534,487
Subtract: depreciation expense	(5,366,601)
Subtract: proceeds from the sale of capital assets	(1,896,539)
Subtract: loss on disposal of capital assets	(240,361)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

Add: net change in deferred property tax revenues	440,579
Add: net change in other deferred revenue	2,419,274

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: principal payments on long-term liabilities	5,384,076
Add: bond issuance costs capitalized	438,813
Add: current year defeasance of long-term liabilities	8,370,000
Subtract: bond proceeds received	(18,145,000)
Subtract: bond premium received	(173,669)
Subtract: bond issuance costs amortized	(37,682)

The reduction of the City's long-term liabilities did not provide current financial resources, and was consequently not reported in the funds.

Add: reduction of long-term liability for environmental remediation	493,376
Add: reduction of long-term liability for tax tribunal payments	119,045

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Add: prior year accrued interest on bonds	613,215
Subtract: current year accrued interest on bonds	(548,682)
Add: decrease in the accrual of compensated absences	995,682

Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.

Add: interest revenue from governmental internal service funds	150,252
Subtract: gain/loss on disposal of capital assets in governmental internal service funds	(171,707)
Add: net operating gain from governmental activities accounted for in internal service funds	141,068
Subtract: net transfers (internal activities) from governmental internal service funds	(832,426)

Change in net assets of governmental activities	\$ 7,983,288
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The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO, MICHIGAN
Statement of Revenue, Expenditures and Changes in Fund Balance
Budget (Non-GAAP Budgetary Basis) and Actual
General Fund
For the Year Ended December 31, 2005

	Original Budget	Amended Budget	Actual	Variance with Final Budget Positive (Negative)
Revenue				
Property taxes and special assessments	\$ 29,642,211	\$ 29,694,939	\$ 30,094,261	\$ 399,322
Licenses and permits	2,127,235	2,127,235	2,187,748	60,513
Intergovernmental	11,285,857	11,286,314	11,375,426	89,113
Charges for services	1,026,722	1,026,722	1,129,388	102,666
Fines and forfeitures	45,705	45,705	44,266	(1,439)
Interest and rent	573,140	573,140	795,770	222,630
Other revenue	3,907,544	3,907,544	3,925,763	18,219
Total revenue	48,608,414	48,661,599	49,552,622	891,024
Expenditures				
City Commission	67,924	109,084	82,429	26,655
City Administration:				
City Manager	746,132	772,732	734,994	37,738
Budget and evaluation	126,855	126,855	106,249	20,606
Total city administration	872,987	899,587	841,243	58,344
City Attorney	869,352	939,352	913,330	26,022
City Clerk:				
Administration	253,683	274,983	203,354	71,629
Election	164,392	164,392	149,207	15,185
Records management	251,780	259,680	243,426	16,254
Total city clerk	669,855	699,055	595,987	103,068
Internal Audit	82,947	82,947	80,520	2,427
Human Resources	814,880	839,380	822,107	17,273
Management Services Department:				
Accounting	924,471	924,471	869,952	54,519
Assessing	684,729	707,244	695,636	11,608
Treasury	910,309	910,309	877,308	33,001
Purchasing and risk management	430,851	430,851	422,273	8,578
Total management services department	2,950,360	2,972,875	2,865,169	107,706
Public Safety (combined police and fire):				
Administration	1,199,235	1,199,235	1,107,560	91,675
Training	942,041	963,264	810,136	153,128
K-Vet drug enforcement	1,367,064	1,367,314	1,375,664	(8,350)
Operations division	19,543,950	19,240,650	18,684,637	556,013
Criminal investigations	3,309,273	3,286,708	3,182,574	104,134
Service division	3,880,294	4,199,955	4,325,374	(125,419)
Total public safety (combined police and fire)	30,241,857	30,257,126	29,485,945	771,181

Continued...

CITY OF KALAMAZOO, MICHIGAN
Statement of Revenue, Expenditures and Changes in Fund Balance
Budget (Non-GAAP Budgetary Basis) and Actual (Concluded)
General Fund
For the Year Ended December 31, 2005

	Original Budget	Amended Budget	Actual	Variance with Final Budget Positive (Negative)
Expenditures (concluded)				
Public Works:				
Forestry, creeks, and environmental inspections	\$ 714,267	\$ 711,983	\$ 702,081	\$ 9,902
Sidewalks and Pedestrian Mall maintenance	568,262	597,881	590,200	7,681
Total public works	1,282,529	1,309,864	1,292,281	17,583
Economic Development	500,000	500,000	500,000	-
Community Planning and Development:				
Programs	669,151	677,110	445,724	231,386
Planning	448,765	474,059	360,212	113,847
Inspections	1,833,584	1,834,214	1,732,571	101,643
Total community planning and development	2,951,500	2,985,383	2,538,507	446,876
Parks and Recreation:				
Parks maintenance	1,088,352	1,056,352	970,527	85,825
Recreation	1,391,308	1,448,755	1,308,435	140,320
Total parks and recreation	2,479,660	2,505,107	2,278,962	226,145
Non-Departmental:				
City Hall maintenance	562,969	548,964	521,725	27,239
Street lighting	911,736	884,401	884,194	207
Debt Service - interest and fiscal charges	-	-	133,074	(133,074)
Other	1,207,029	1,417,329	981,522	435,807
Total non-departmental	2,681,734	2,850,694	2,520,515	330,179
Total expenditures	46,465,585	46,950,454	44,816,995	2,133,459
Excess (deficiency) of revenue over expenditures	2,142,829	1,711,145	4,735,627	3,024,482
Other financing sources (uses)				
Transfers in	-	26,460	25,300	(1,160)
Transfers out	(2,825,881)	(3,127,446)	(3,181,686)	(54,240)
Proceeds from the sale of capital assets	-	-	2,100	2,100
Total other financing uses	(2,825,881)	(3,100,986)	(3,154,286)	(53,300)
Net change in fund balance	(683,052)	(1,389,841)	1,581,341	2,971,182
Fund balance, beginning of year	7,098,407	7,098,407	7,098,407	-
Fund balance, end of year (budgetary basis)	\$ 6,415,355	\$ 5,708,566	8,679,748	\$ 2,971,182
Accounting basis difference			(5,322,350)	
Fund balance, end of year (GAAP basis)			\$ 3,357,398	

The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO, MICHIGAN
Statement of Revenue, Expenditures and Changes in Fund Balance
Budget (GAAP Basis) and Actual
Major Streets Fund
For the Year Ended December 31, 2005

	Original Budget	Amended Budget	Actual	Variance with Final Budget Positive (Negative)
Revenue				
Intergovernmental revenue:				
State trunkline maintenance	\$ 200,000	\$ 200,000	\$ 290,140	\$ 90,140
Gas and weight tax distribution	4,300,000	4,300,000	4,154,921	(145,079)
Other state revenue	-	1,067,200	263,007	(804,193)
Interest	25,000	25,000	138,463	113,463
Other revenue	417,420	2,824,082	757,911	(2,066,171)
Total revenue	4,942,420	8,416,282	5,604,442	(2,811,840)
Expenditures				
Public services:				
Administration	442,178	442,178	450,993	(8,815)
Repair	495,569	495,569	611,800	(116,231)
Maintenance	713,671	713,671	792,956	(79,285)
Pavement painting	57,373	57,373	63,498	(6,125)
Traffic signals	374,175	374,175	336,284	37,891
Traffic signs	56,110	56,110	52,117	3,993
Construction	2,292,000	9,407,539	4,289,796	5,117,743
Total expenditures	4,431,076	11,546,615	6,597,444	4,949,171
Excess (deficiency) of revenue over expenditures	511,344	(3,130,333)	(993,002)	2,137,331
Other financing sources (uses)				
Transfers in:				
General Fund	817,000	817,000	817,000	-
Transfers out:				
Local Streets	(750,000)	(750,000)	(750,000)	-
Michigan Transportation Fund Debt Service Fund	(1,623,844)	(1,623,844)	(1,623,575)	269
Total other financing sources (uses)	(1,556,844)	(1,556,844)	(1,556,575)	269
Net change in fund balance	(1,045,500)	(4,687,177)	(2,549,577)	2,137,600
Fund balance, beginning of year	7,082,035	7,082,035	7,082,035	-
Fund balance, end of year	\$ 6,036,535	\$ 2,394,858	\$ 4,532,458	\$ 2,137,600

The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO, MICHIGAN
Statement of Revenue, Expenditures and Changes in Fund Balance
Budget (GAAP Basis) and Actual
Local Streets Fund
For the Year Ended December 31, 2005

	Original Budget	Amended Budget	Actual	Variance with Final Budget Positive (Negative)
Revenue				
Special assessments	\$ 8,000	\$ 8,000	\$ 5,370	\$ (2,630)
Intergovernmental revenue:				
Gas and weight tax distribution	1,235,000	1,235,000	1,162,004	(72,996)
Interest	14,500	14,500	55,258	40,758
Other revenue	-	-	28,634	28,634
Total revenue	1,257,500	1,257,500	1,251,266	(6,234)
Expenditures				
Public services:				
Administration	446,911	448,111	463,622	(15,511)
Repair	524,699	521,599	459,962	61,637
Maintenance	469,138	471,738	373,686	98,052
Pavement painting	24,566	23,766	4,691	19,075
Signs	47,397	47,497	37,592	9,905
Construction	1,500,000	1,807,498	1,129,625	677,873
Total expenditures	3,012,711	3,320,209	2,469,178	851,031
Excess (deficiency) of expenditures over revenue	(1,755,211)	(2,062,709)	(1,217,912)	844,797
Other financing sources (uses)				
Transfers in:				
Major Streets	750,000	750,000	750,000	-
Transfers out:				
Michigan Transportation Fund Debt Service Fund	(762,557)	(762,557)	(435,948)	326,609
Capital Improvement Projects Fund	-	-	(326,410)	(326,410)
Total other financing uses	(12,557)	(12,557)	(12,358)	199
Net change in fund balance	(1,767,768)	(2,075,266)	(1,230,270)	844,996
Fund balance, beginning of year	2,548,318	2,548,318	2,548,318	-
Fund balance, end of year	\$ 780,550	\$ 473,052	\$ 1,318,048	\$ 844,996

The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO, MICHIGAN
Statement of Revenue, Expenditures and Changes in Fund Balance
Budget (Non-GAAP Budgetary Basis) and Actual
Solid Waste
For the Year Ended December 31, 2005

	Original Budget	Amended Budget	Actual	Variance with Final Budget Positive (Negative)
Revenue				
Taxes	\$ 2,763,203	\$ 2,814,783	\$ 2,764,761	\$ (50,022)
Interest and dividends	-	-	2,540	2,540
Total revenue	2,763,203	2,814,783	2,767,301	(47,482)
Expenditures				
Solid Waste	2,648,913	2,648,913	2,109,015	539,898
Excess of revenue over expenditures	114,290	165,870	658,286	492,416
Other financing uses				
Transfer out:				
Environmental Debt Service Fund	-	-	(301,775)	(301,775)
Net change in fund balance	114,290	165,870	356,511	190,641
Fund balance, beginning of year	492,792	492,792	492,792	-
Fund balance, end of year (budgetary basis)	<u>\$ 607,082</u>	<u>\$ 658,662</u>	849,303	<u>\$ 190,641</u>
Accounting basis difference			(489,668)	
Fund balance, end of year (GAAP basis)			<u>\$ 359,635</u>	

The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO, MICHIGAN
Statement of Revenue, Expenditures and Changes in Fund Balance
Budget (GAAP Basis) and Actual
Neighborhood and Community Development Fund
For the Year Ended December 31, 2005

	Original Budget	Amended Budget	Actual	Variance with Final Budget Positive (Negative)
Revenue				
Intergovernmental revenue:				
Federal grants	\$ 1,752,724	\$ 7,472,741	\$ 3,423,027	\$ (4,049,714)
Charges for services	-	-	45,794	45,794
Interest	-	-	3,913	3,913
Other revenue	-	-	64,197	64,197
Total revenue	1,752,724	7,472,741	3,536,931	(3,935,810)
Expenditures				
Community Development:				
Demolition revolving	-	-	78,651	(78,651)
Housing services	876,362	876,362	629,083	247,279
Community Development Block Grant	-	3,349,721	1,592,955	1,756,766
Housing rehabilitation	-	1,256	57,617	(56,361)
HOME	-	2,370,296	1,189,844	1,180,452
Total expenditures	876,362	6,597,635	3,548,150	3,049,485
Excess (deficiency) of revenue over expenditures	876,362	875,106	(11,219)	(886,325)
Other financing uses				
Transfers out:				
General Fund	-	-	(25,300)	(25,300)
Grants and Donations Fund	-	-	(11,145)	(11,145)
Total other financing uses	-	-	(36,445)	(36,445)
Net change in fund balance	876,362	875,106	(47,664)	(922,770)
Fund balance, beginning of year	210,498	210,498	210,498	-
Fund balance, end of year	\$ 1,086,860	\$ 1,085,604	\$ 162,834	\$ (922,770)

The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO, MICHIGAN

Statement of Net Assets

Proprietary Funds

December 31, 2005

	Enterprise Funds					
	Wastewater	Water	Other Enterprise Funds	Total	Internal Service Funds	
Assets						
Current assets:						
Cash and cash equivalents	\$ 3,579,874	\$ 2,963,649	\$ 39,520	\$ 6,583,043	\$ 6,743,299	
Receivables:						
Customers	3,035,605	2,153,644	-	5,189,249	-	
Special assessments	63,690	-	-	63,690	-	
Accrued interest	1,518	4,246	-	5,764	-	
Other	-	-	-	-	86,689	
Due from other funds	238,808	729,053	-	967,861	3,181,239	
Due from component units	-	-	-	-	81,597	
Inventories	561,952	373,082	-	935,034	192,002	
Prepaid items and other assets	34,493	47,424	-	81,917	1,130	
Total current assets	7,515,940	6,271,098	39,520	13,826,558	10,285,956	
Noncurrent assets:						
Restricted cash	385,398	1,384,724	-	1,770,122	824,627	
Restricted investments	11,250,461	2,475,253	-	13,725,714	-	
Notes receivable, long-term	-	7,113	-	7,113	-	
Advances to component units	236,354	821	-	237,175	-	
Deferred bond issuance costs	126,508	785,030	-	911,538	-	
Capital assets	88,923,857	80,571,610	94,387	169,589,854	3,127,250	
Total noncurrent assets	100,922,578	85,224,551	94,387	186,241,516	3,951,877	
Total assets	108,438,518	91,495,649	133,907	200,068,074	14,237,833	
Liabilities						
Current liabilities:						
Accounts payable	938,808	189,676	24	1,128,508	440,641	
Accrued and other liabilities	274,148	411,470	7,487	693,105	519,738	
Due to other funds	607,335	620,997	237	1,228,569	2,463,229	
Due to component units	-	-	-	-	24	
Advances from other funds	-	-	-	-	340,000	
Deposits payable	400	903,421	-	903,821	-	
Unearned revenue	-	-	-	-	17,600	
Current portion of compensated absences	139,788	90,605	-	230,393	20,189	
Current portion of long-term debt	195,000	1,050,000	-	1,245,000	1,622,749	
Total current liabilities	2,155,479	3,266,169	7,748	5,429,396	5,424,170	
Noncurrent liabilities:						
Bonds payable	3,825,000	17,620,000	-	21,445,000	-	
Compensated absences payable	978,511	634,233	-	1,612,744	141,330	
Employee death benefits payable	-	-	-	-	252,045	
Uninsured claim liability	-	-	-	-	1,841,256	
Total noncurrent liabilities	4,803,511	18,254,233	-	23,057,744	2,234,631	
Total liabilities	6,958,990	21,520,402	7,748	28,487,140	7,658,801	
Net assets						
Invested in capital assets, net of related debt	84,903,857	61,901,610	94,387	146,899,854	3,127,250	
Restricted for:						
Asset replacement	4,104,565	2,475,253	-	6,579,818	2,754,721	
Capital improvements	7,145,896	-	-	7,145,896	-	
Unrestricted	5,325,210	5,598,384	31,772	10,955,366	697,061	
Total net assets	\$ 101,479,528	\$ 69,975,247	\$ 126,159	\$ 171,580,934	\$ 6,579,032	

The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO, MICHIGAN
Reconciliation of Net Assets on the Statement of Net Assets
for Proprietary Funds to Net Assets
of Business-Type Activities on the Statement of Net Assets
December 31, 2005

Net assets - total enterprise funds	\$ 171,580,934
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Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The assets and liabilities of certain internal service funds are included in business-type activities in the Statement of Net Assets

Add: net assets of business-type activities accounted for in business-type activity internal service funds	2,419,038
Add: net assets allocated to business-type activities from governmental-type activity internal service funds	1,470,595
	1,470,595

Net assets of business-type activities	\$ 175,470,567
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The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO, MICHIGAN
Statement of Revenue, Expenses and
Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2005

	Enterprise Funds				
	Wastewater	Water	Other Enterprise Funds	Total	Internal Service Funds
Operating revenue					
Charges for services	\$ 18,354,063	\$ 10,902,724	\$ 32,560	\$ 29,289,347	\$ 25,254,410
Other	923,584	159,538	-	1,083,122	-
Total operating revenue	19,277,647	11,062,262	32,560	30,372,469	25,254,410
Operating expenses					
Operation and maintenance	16,397,116	7,840,777	1,115,580	25,353,473	7,656,778
Risk management	-	-	-	-	16,448,454
Depreciation	4,096,884	2,621,953	3,960	6,722,797	948,322
Total operating expenses	20,494,000	10,462,730	1,119,540	32,076,270	25,053,554
Operating income (loss)	(1,216,353)	599,532	(1,086,980)	(1,703,801)	200,856
Non-operating revenue (expenses)					
Interest income	327,282	186,276	724	514,282	165,981
Interest expense	(192,532)	(955,228)	-	(1,147,760)	-
Other non-operating expenses	(9,092)	-	-	(9,092)	-
Loss on sale of capital assets	(81,032)	(706)	-	(81,738)	(166,287)
Total non-operating revenue (expenses)	44,626	(769,658)	724	(724,308)	(306)
Income (loss) before contributions and transfers	(1,171,727)	(170,126)	(1,086,256)	(2,428,109)	200,550
Capital contributions	43,072	4,172,073	-	4,215,145	-
Transfers					
Transfers out	-	-	-	-	(832,426)
Increase (decrease) in net assets	(1,128,655)	4,001,947	(1,086,256)	1,787,036	(631,876)
Net assets, beginning of year	102,608,183	65,973,300	1,212,415	169,793,898	7,210,908
Net assets, end of year	\$ 101,479,528	\$ 69,975,247	\$ 126,159	\$ 171,580,934	\$ 6,579,032

The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO, MICHIGAN
Reconciliation of the Statement of Revenue, Expenses
and Changes in Fund Net Assets
of Proprietary Funds to the Statement of Activities
For the Year Ended December 31, 2005

Net change in net assets - total proprietary funds	\$ 1,787,036
--	--------------

Amounts reported for business-type *activities* in the statement of activities are different because:

Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The net revenue (expense) of certain internal service funds is reported with business-type activities.

Add: interest revenue from business-type activity internal service funds	15,729
Add: gain on disposal of capital assets in business-type internal service funds	5,420
Subtract: net operating loss from business-type activities accounted for in internal service funds	(31,160)
Add: net operating gain from business-type activities accounted for in governmental internal service funds	63,517
	63,517

Change in net assets of business-type activities	\$ 1,840,542
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The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO, MICHIGAN
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2005

	Enterprise Funds				
	Wastewater	Water	Other Enterprise Funds	Total	Internal Service Funds
Cash flows from operating activities					
Cash received from customers	\$ 21,433,419	\$ 11,096,907	\$ 289,622	\$ 32,819,948	\$ -
Cash received from providing interfund services	-	-	-	-	29,665,396
Cash payments to suppliers for goods and services	(10,526,917)	(4,032,796)	(1,355,676)	(15,915,389)	(21,458,904)
Cash payments to employees for services	(5,347,230)	(3,647,040)	(17,596)	(9,011,866)	(2,900,740)
Net cash provided (used) by operating activities	5,559,272	3,417,071	(1,083,650)	7,892,693	5,305,752
Cash flows from non-capital financing activities					
Non-operating cash outlays	(9,092)	-	-	(9,092)	-
Transfers out	-	-	-	-	(832,426)
Net cash used by non-capital financing activities	(9,092)	-	-	(9,092)	(832,426)
Cash flows from capital and related financing activities					
Principal payments	(185,000)	(1,010,000)	-	(1,195,000)	-
Interest payments	(184,098)	(896,393)	-	(1,080,491)	-
Purchases of capital assets	(3,069,866)	(6,162,772)	-	(9,232,638)	(1,016,573)
Capital contributions received	43,072	4,172,073	-	4,215,145	-
Proceeds from sale of capital assets	1,117	181	1,079,471	1,080,769	154,493
Net cash provided (used) by capital and related financing activities	(3,394,775)	(3,896,911)	1,079,471	(6,212,215)	(862,080)
Cash flows from investing activities					
Interest received	327,282	186,276	724	514,282	165,981
Purchase of investments	(11,250,461)	(2,475,253)	-	(13,725,714)	-
Sale of investments	11,511,097	2,355,442	-	13,866,539	-
Net cash provided by investing activities	587,918	66,465	724	655,107	165,981
Net increase (decrease) in cash and cash equivalents	2,743,323	(413,375)	(3,455)	2,326,493	3,777,227
Cash and cash equivalents, beginning of year	1,221,949	4,761,748	42,975	6,026,672	3,790,699
Cash and cash equivalents, end of year	\$ 3,965,272	\$ 4,348,373	\$ 39,520	\$ 8,353,165	\$ 7,567,926
Statement of net assets classification of cash and cash equivalents					
Cash and cash equivalents	\$ 3,579,874	\$ 2,963,649	\$ 39,520	\$ 6,583,043	\$ 6,743,299
Restricted assets	385,398	1,384,724	-	1,770,122	824,627
	\$ 3,965,272	\$ 4,348,373	\$ 39,520	\$ 8,353,165	\$ 7,567,926

Non-cash investing capital and financing transactions

All dividends and interest income were immediately reinvested in the cash management funds.

The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO, MICHIGAN
Statement of Cash Flows
Proprietary Funds (Concluded)
For the Year Ended December 31, 2005

	Enterprise Funds				Internal Service Funds
	Wastewater	Water	Other Enterprise Funds	Total	
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	\$ (1,216,353)	\$ 599,532	\$ (1,086,980)	\$ (1,703,801)	\$ 200,856
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	4,096,884	2,621,953	3,960	6,722,797	948,322
Changes in assets and liabilities:					
Receivables	2,058,758	(125,821)	34,754	1,967,691	(17,607)
Due from other funds	89,743	118,065	366	208,174	4,501,535
Due from component units	2,727	-	172,888	175,615	(72,942)
Due from other governments	4,544	42,401	49,054	95,999	-
Inventories	(8,972)	10,802	-	1,830	10,471
Prepaid items and other assets	(19,654)	5,102	-	(14,552)	53
Advances to component units	-	-	-	-	340,000
Accounts payable	190,286	(122,955)	(258,040)	(190,709)	(586,542)
Accrued and other liabilities	118	(24,927)	1,577	(23,232)	254,908
Due to other funds	286,640	49,734	(736)	335,638	108,521
Due to component units	-	-	(493)	(493)	(134,252)
Deposits payable	(2,330)	237,292	-	234,962	-
Compensated absences payable	76,881	5,893	-	82,774	13,200
Employee death benefits payable	-	-	-	-	(538)
Uninsured claim liability	-	-	-	-	(260,233)
Net cash provided (used) by operating activities	\$ 5,559,272	\$ 3,417,071	\$ (1,083,650)	\$ 7,892,693	\$ 5,305,752

The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO, MICHIGAN
Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2005

	Employees' Retirement System Pension Trust Fund	General Private Purpose Trust Fund	Tax Collector's Agency Fund
Assets			
Cash and cash equivalents	\$ 2,568,664	\$ 53,940	\$ 4,870,961
Investments:			
U.S. treasuries	67,841,669	-	-
U.S. agencies	29,412,261	-	-
Corporate debt securities	21,215,623	-	-
Equity mutual funds	326,944,480	-	-
Real estate mutual funds	23,367,965	-	-
Receivables:			
Taxes	-	-	40,864,704
Accrued interest	1,693,202	-	-
Other	-	-	19,602
Due from other funds	45,000	-	-
Investments with agent	-	500	-
	<hr/>	<hr/>	<hr/>
Total assets	473,088,864	54,440	\$ 45,755,267
	<hr/>	<hr/>	<hr/>
Liabilities			
Accounts payable	3,046,417	-	\$ 1,615,968
Accrued and other liabilities	-	47,859	-
Due to other governments	-	-	44,139,299
	<hr/>	<hr/>	<hr/>
Total liabilities	3,046,417	47,859	\$ 45,755,267
	<hr/>	<hr/>	<hr/>
Net assets			
Held in trust for pension benefits and other purposes	\$ 470,042,447	\$ 6,581	
	<hr/>	<hr/>	

The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO, MICHIGAN
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended December 31, 2005

	Employees' Retirement System Pension Trust Fund	General Private Purpose Trust Fund
Additions		
Contributions:		
Employees	\$ 1,458,492	\$ -
Investment earnings:		
Net appreciation in fair value of investments	16,497,172	-
Interest and dividends	16,989,324	126
Less investment advisor fees	(1,274,622)	-
Net investment earnings	32,211,874	126
Total additions	33,670,366	126
Deductions		
Pension benefits paid directly to participants	13,421,166	-
Refund payments to terminated employees	305,480	-
Trustee fees	248,673	-
Actuarial fees	68,646	-
Administrative expenses paid to the City of Kalamazoo	101,400	-
Investment committee expenses	12,263	-
Parks and recreation	-	550
Other expenses	43,213	35,353
Total deductions	14,200,841	35,903
Change in net assets	19,469,525	(35,777)
Net assets, beginning of year	450,572,922	42,358
Net assets, end of year	\$ 470,042,447	\$ 6,581

The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO, MICHIGAN
Combining Statement of Net Assets
Component Units
December 31, 2005

	Downtown Development Authority	Economic Development Corporation	Brownfield Redevelopment Authority
Assets			
Cash and cash equivalents	\$ 189,475	\$ 112,206	\$ 1,395,440
Receivables, net	3,635,013	1,387,385	1,142,180
Other assets	87,321	-	-
Restricted cash	1,796,143	-	-
Restricted investments	-	-	-
Capital assets, net	391,002	-	-
	<hr/>	<hr/>	<hr/>
Total assets	6,098,954	1,499,591	2,537,620
	<hr/>	<hr/>	<hr/>
Liabilities			
Account payable and accrued liabilities	6,479,855	1,335,526	852,084
Unearned revenue	114,337	-	258,483
Long-term liabilities:			
Due within one year	440,635	-	-
Due in more than one year	450,586	-	-
	<hr/>	<hr/>	<hr/>
Total liabilities	7,485,413	1,335,526	1,110,567
	<hr/>	<hr/>	<hr/>
Net assets			
Invested in capital assets, net of related debt	378,086	-	-
Unrestricted (deficit)	(1,764,545)	164,065	1,427,053
	<hr/>	<hr/>	<hr/>
Total net assets	\$ (1,386,459)	\$ 164,065	\$ 1,427,053
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

Local Development Finance Authority	Metro Transit	Kalamazoo Municipal Golf Association	Total
\$ 140,586	\$ 1,998,344	\$ 153,113	\$ 3,989,164
111,423	2,491,087	-	8,767,088
-	329,228	50,571	467,120
-	-	-	1,796,143
-	1,151,263	-	1,151,263
-	17,222,522	1,621,758	19,235,282
252,009	23,192,444	1,825,442	35,406,060
2,014,363	2,130,165	1,620,239	14,432,232
-	469,652	159,618	1,002,090
-	24,318	3,631	468,584
-	127,398	-	577,984
2,014,363	2,751,533	1,783,488	16,480,890
-	17,222,522	25,220	17,625,828
(1,762,354)	3,218,389	16,734	1,299,342
\$ (1,762,354)	\$ 20,440,911	\$ 41,954	\$ 18,925,170

CITY OF KALAMAZOO, MICHIGAN
Combining Statement of Activities
Component Units
For the Year Ended December 31, 2005

	Downtown Development Authority	Economic Development Corporation	Brownfield Redevelopment Authority
Expenses	\$ 6,558,434	\$ 209,110	\$ 1,432,513
Program revenues			
Charges for services	2,358,655	-	-
Operating grants, contributions, and restricted interest	353,236	73,603	1,199,001
Capital grants and contributions	1,089,547	-	-
Total program revenues	3,801,438	73,603	1,199,001
Net (expense) revenue	(2,756,996)	(135,507)	(233,512)
General revenues:			
Property taxes	3,541,716	-	217,965
Gain (loss) on sale of capital assets	-	-	31,505
Total general revenues	3,541,716	-	249,470
Change in net assets	784,720	(135,507)	15,958
Net assets (deficit), beginning of year	(2,171,179)	299,572	1,411,095
Net assets (deficit), end of year	<u>\$ (1,386,459)</u>	<u>\$ 164,065</u>	<u>\$ 1,427,053</u>

The accompanying notes are an integral part of these financial statements.

Local Development Finance Authority	Metro Transit	Kalamazoo Municipal Golf Association	Total
\$ 208,403	\$ 12,528,185	\$ 1,579,851	\$ 22,516,496
-	1,826,225	1,386,071	5,570,951
-	8,002,658	1,262	9,629,760
-	9,262,578	-	10,352,125
-	19,091,461	1,387,333	25,552,836
(208,403)	6,563,276	(192,518)	3,036,340
318,402	1,500,275	-	5,578,358
-	(84,180)	9,181	(43,494)
318,402	1,416,095	9,181	5,534,864
109,999	7,979,371	(183,337)	8,571,204
(1,872,353)	12,461,540	225,291	10,353,966
\$ (1,762,354)	\$ 20,440,911	\$ 41,954	\$ 18,925,170

CITY OF KALAMAZOO, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

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CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Kalamazoo, Michigan (the “City”) conform to United States generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant accounting policies:

A. Reporting Entity

The City of Kalamazoo is a municipal corporation governed by an elected, seven-member City Commission. As required by generally accepted accounting principles, these financial statements present the City of Kalamazoo (the primary government) and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government’s operations and so data from these units are combined with data of the primary government. The discretely presented component units, on the other hand, are reported in a separate column on the statement of net assets to emphasize that they are legally separate from the government. Each blended and discretely presented component unit has a December 31 year end.

Blended Component Unit

Kalamazoo Building Authority – The Kalamazoo Building Authority has been blended into the City’s financial statements as debt service and capital project fund types. The Authority is governed by a three-member board consisting of the City Manager, City Attorney and Finance Director and is reported as if it were part of the primary government because its sole purpose is to finance and construct the City’s public buildings.

Discretely Presented Component Units

Except for the Kalamazoo Municipal Golf Association, the governing bodies of all of these component units are appointed by the Mayor of the City of Kalamazoo with approval of the City Commission.

Downtown Development Authority – The Downtown Development Authority was created as a tax-increment financing (TIF) district to correct and prevent deterioration in the downtown district, encourage historical preservation and to promote economic growth within the downtown district. The Authority’s budget is subject to approval by the City Commission.

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

Economic Development Corporation - The Economic Development Corporation was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving or expanding within the City so as to provide needed services and facilities to the residents of the City. In certain situations, members of the Board of Directors may be removed by a majority of the Kalamazoo City Commission.

Brownfield Redevelopment Authority - The Brownfield Redevelopment Authority was established pursuant to Act 381 of the Public Acts of 1996, as amended. The purpose of the Authority is to treat and revitalize environmentally distressed brownfield zones. The Authority is financed by tax increment financing and State grants, and has named the City of Kalamazoo as its fiscal agent. The Authority is governed by the Board of the Economic Development Corporation.

Hospital Finance Authority - The Hospital Finance Authority's purpose is to construct, acquire, reconstruct, remodel, improve, add to, enlarge, repair, own and lease hospital facilities for the use of any nonprofit hospital inside or outside the boundaries of the City of Kalamazoo, Michigan. The Authority's budget is subject to approval by the City Commission. The Authority had no account balances at or for the year ended December 31, 2005.

Local Development Finance Authority - The purpose of the LDFA is to finance improvements, through the use of tax increment financing, within the City's business and technology research park. The LDFA was established as a tax-increment financing (TIF) district in 2002 in accordance with Michigan Public Act 248 of 2000.

Metro Transit System - The Metro Transit System operates the public transportation system in the City of Kalamazoo and portions of the surrounding area. The System's budget is subject to approval by the City Commission.

Kalamazoo Municipal Golf Association - The Kalamazoo Municipal Golf Association operates the City's public golf courses. The Board of Governors consists of nine members elected from the general membership, two members elected from the Governing Board (to add diversity with respect to race and sex) and three voting ex-officio members from the City of Kalamazoo (the City Manager, Deputy City Manager, and Director of Finance). The Association is fiscally dependent on the City in that the City Commission approves the annual budget, greens fees and membership fees, and one of the three City ex-officio members must approve of any proposal to expend money for any purpose.

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

Complete financial statements of the individual component units, except for the Brownfield Redevelopment Authority, the Hospital Finance Authority, and Local Development Finance Authority, can be obtained from their respective administrative offices:

Downtown Development Authority

141 East Michigan Avenue
Kalamazoo, MI 49007

Economic Development Corporation

241 West South Street
Kalamazoo, MI 49007

Metro Transit System

530 South Rose
Kalamazoo, MI 49007

Kalamazoo Municipal Golf Association

4200 Lovers Lane
Kalamazoo, MI 49007

B. Government-wide and fund financial statements

Government-wide financial statements. The statements of net assets and activities report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Agency funds, a type of fiduciary fund, are unlike all other types of funds, reporting only assets and liabilities. Therefore, agency funds cannot be said to have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, except for reimbursement-based grants that use one year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest and special assessments associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

The *Major Streets Fund* accounts for the construction, maintenance and repairs of all major streets. Revenues received include state-shared gas and weight taxes, local contributions, etc. This is a special revenue fund because it is used to control the expenditures of motor fuel taxes, which are earmarked by law and the state constitution for street and highway purposes, and is required by Act 51 of the Public Acts of 1951, as amended.

The *Local Streets Fund* accounts for the construction, maintenance and repairs of all local streets. Financing is provided by state-shared gas and weight taxes, local contributions, etc. This is a special revenue fund because it is used to control the expenditures of motor fuel taxes, which are earmarked by law and the state constitution for street and highway purposes, and is required by Act 51 of the Public Acts of 1951, as amended.

The *Solid Waste Fund* accounts for funds provided by a special tax millage for the collection and removal of solid waste. This fund was authorized by a vote of the people authorizing a tax levy and is classified as a special revenue fund due to the limited usage of the assets.

The *Neighborhood and Community Development Fund* accounts for a variety of federal awards programs, including Community Development Block Grant, housing development, rental assistance and several other programs.

The *Building Authority Debt Service Fund* accounts for the debt service activity of the Kalamazoo Building Authority, which consists of the collection of lease payments from the Downtown Development Authority and from the general public for facilities improvements and the subsequent debt service expenditures related to the outstanding Building Authority debt issues.

The *Cork Street Landfill Cap Construction Fund* accounts for earmarked revenue set aside for post closure care and monitoring costs associated with the Cork Street Landfill. Revenue sources from prior years included transfers from other funds and contributions from outside parties identified as potentially responsible parties.

The *Capital Improvements Projects Fund* accounts for earmarked revenue set aside for public improvements of a major nature. Revenue sources include General Fund transfers, grants from other units of government, private contributions and bond proceeds.

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

The City reports the following major enterprise funds:

The *Wastewater Fund* accounts for the operation and maintenance of the sewage disposal system, capital additions and improvements to the system and retirement of revenue bonds. Financing is provided by user charges, Environmental Protection Agency grants for wastewater treatment plant expansion, state grants, and contributions from other municipalities and customers. This fund is classified as an enterprise fund because it is funded primarily through user charges.

The *Water Fund* accounts for the operation and maintenance of the water supply system, capital additions and improvements to the system and retirement of revenue bonds. Financing is provided by user charges, state grants, and contributions from other municipalities and customers. This fund is classified as an enterprise fund because it is funded primarily through user charges.

Additionally, the City reports the following fund types:

Special revenue funds. These funds account for revenue sources that are legally restricted to expenditures for specific purposes not including capital projects or permanent funds.

Debt service funds. These funds account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Capital projects funds. These funds account for the acquisition of capital assets or construction of major capital projects not being financed by proprietary funds.

Permanent funds. These funds account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support specified government programs.

Enterprise funds. These funds account for those operations that are financed and operated in a manner similar to private business or where the City has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Internal service funds. These funds account for operations that provide services to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis. This includes machinery, equipment and building space management services; liability, auto, and workers' compensation self-insurance; information technology services; and printing, mailing and reproduction services.

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

Pension trust fund. This fund accounts for the activities of the Employees' Retirement System, a defined-benefit pension plan, which accumulates resources for retirement benefit payments to qualified employees.

Private purpose trust. This fund primarily accounts for the Rabbi Trust deferred compensation program and other assets of non-profit organizations held for outside parties in a trustee capacity for purposes other than those that support the government's programs.

Agency fund. This fund accounts for taxes collected and distributed to other governments in an agency capacity.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various function concerned.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the government's enterprise and internal service funds are charges to customers for sales and services. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

D. Assets, Liabilities and Equity

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the City to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

Investments are stated at fair value.

2. Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the long-term portion of interfund loans).

Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles, as applicable.

3. Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out (FIFO) method, which approximates fair value. The costs of governmental fund-type inventories are recorded as expenditures when purchased, and are immaterial at year end.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

4. Restricted Assets

Certain revenues and resources of the City are classified as restricted assets on the balance sheet and statement of net assets because their use is limited. Proprietary fund restricted assets are held subject to bond covenants and reserved for future capital expenditures.

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

5. *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The government defines capital asset as: assets with initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. In accordance with the provisions of GASB Statement No. 34, the government has only capitalized infrastructure assets acquired or constructed since 1980.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed.

Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	5-50
Buildings and building improvements	50
Water and wastewater system infrastructure	25-50
Vehicles	7-10
Office equipment	6-10
Machinery and equipment	3-10
Public infrastructure	50

6. *Compensated Absences*

Amounts of vested or accumulated vacation leave are accrued in the government-wide and proprietary financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that it is estimated will be taken as “termination leave” prior to retirement.

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

7. *Long-term Obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. *Fund Equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The City adopts a formal budget for the general and special revenue funds. The City Charter requires that the City Manager submit to the City Commission an estimate of revenues and contemplated expenditures for the following calendar year by December 1. An interim appropriation resolution is passed by January 1 to continue normal operations and by February 1 of each year the City Commission passes an annual appropriation resolution approving the estimated expenditures. The City Manager is authorized to transfer budgeted amounts between expenditure control accounts within a department as long as the budgeted excess of revenues and other sources over (under) expenditures and other uses stays constant. Capital outlay expenditures in excess of the greater of \$10,000 or in amounts greater than 10 percent of any project cost, interdepartmental transfers, use of contingency funds and position classification changes require prior City Commission approval.

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

Formal budgetary integration is employed as a management control device during the year. Supplemental appropriations were approved by the City Commission in the form of budget amendment resolutions or as part of special authorizing motions for grants, bonds or notes, the total of which was not significant in relation to the original budget appropriation valuations. Appropriations lapse at each year end, except for those approved for carry forward by the City Commission.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in all governmental funds. Encumbrances outstanding at year end are reported as reservations of fund balance for governmental funds since they do not constitute expenditures or liabilities.

The budget has been prepared in accordance with U.S. generally accepted accounting principles (GAAP), with the exception that property tax revenues have been recognized in the year levied, even though they would not be fully available to finance operations of the current year (*see Note IV.B. for a further discussion*).

B. Budget/GAAP Reconciliation

The Statements of Revenue, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Budgetary Basis) and Actual are presented on the same basis of accounting used in preparing the adopted budget. The following schedule reconciles the amounts on those schedules to the Statement of Revenue, Expenditures and Changes in Fund Balances – Governmental Funds.

	Budgetary Basis	Accounting Basis Difference	GAAP Basis
General Fund:			
Deferred revenue	\$ 1,567,106	\$ 5,322,350	\$ 6,889,456
Property tax revenue	30,094,261	(394,411)	29,699,850
Fund balance, beginning of year	7,098,407	(4,927,939)	2,170,468
Fund balance, end of year	8,679,748	(5,322,350)	3,357,398
Solid Waste Special Revenue Fund:			
Deferred revenue	-	489,668	489,668
Property tax revenue	2,764,761	(46,168)	2,718,593
Fund balance, beginning of year	492,792	(443,500)	49,292
Fund balance, end of year	849,303	(489,668)	359,635

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

C. Excess of Expenditures Over Appropriations

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. The approved budgets of the City were adopted on a department level basis in the General Fund, and at the fund level for other governmental funds, which is the legal level of control.

Expenditures in the combining and individual fund financial statements have been presented at a level of detail greater than the level of legal budgetary control.

During the year ended December 31, 2005, the City did not incur expenditures in excess of the amounts appropriated.

D. Deficit Fund Equity

The Public Works Equipment internal service fund had a deficit in unrestricted net assets of \$495,310 as of December 31, 2005, although its total net assets (including amounts invested in capital assets) amounted to a positive \$947,843. In addition, the Printing Services and Engineering internal service funds had deficits in unrestricted net assets of \$31,607 and \$60,558 as of December 31, 2005, respectively.

The Downtown Development Authority and the Local Development Finance Authority component units had deficits in unrestricted net assets at December 31, 2005, of \$1,764,545 and \$1,762,354, respectively. These deficits existed as a result of presenting the financial statements for these component units on the full accrual basis, in accordance with GAAP. On a modified accrual fund basis, only the LDFA has a deficit fund balance, which was a planned deficit, as eligible expenditures were incurred in advance of tax increment financing revenues. The City plans to eliminate the deficit of the LDFA through future tax increment financing collections.

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

III. DETAILED NOTES ON ALL FUNDS

A-1. Deposits and Investments – Pooled Cash and Investments

Following is a reconciliation of deposit and investment balances (including pooled cash and investments as well as pension trust fund balances; see Note A-2) as of December 31, 2005:

	<u>Primary Government</u>	<u>Component Units</u>	<u>Totals</u>
Statement of Net Assets			
Cash and cash equivalents	\$ 27,976,253	\$ 3,989,164	\$ 31,965,417
Investments	4,006,995	-	4,006,995
Restricted cash	4,645,484	1,796,143	6,441,627
Restricted investments	13,725,714	1,151,263	14,876,977
Investments with agent	2,569,670	-	2,569,670
 Statement of Fiduciary Net Assets			
Cash and cash equivalents	7,493,565	-	7,493,565
Investments	468,781,998	-	468,781,998
Investments with agent	<u>500</u>	<u>-</u>	<u>500</u>
	<u>\$ 529,200,179</u>	<u>\$ 6,936,570</u>	<u>\$ 536,136,749</u>
 Deposits and Investments			
Cash on hand			\$ 6,595
Bank deposits (checking accounts, savings accounts and CDs)			26,024,212
Investments with agent (Kalamazoo Community Foundation)			2,570,170
Investments in securities, mutual funds and similar vehicles - pool			36,185,110
Investments in securities, mutual funds and similar vehicles - pension			<u>471,350,662</u>
			<u>\$ 536,136,749</u>

Custodial Credit Risk - Deposits. For deposits, custodial credit risk is the risk, that in the event of a bank failure, the City's deposits may not be returned to the government. As of December 31, 2005, \$25,251,591 of the City's total bank balance of \$25,451,591 (total book balance was \$26,024,212) was exposed to custodial credit risk as it was uninsured and uncollateralized.

The City's banking and investment policy does not specifically address this risk, although the City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

Custodial Credit Risk – Investments with Agent. As permitted by State statutes, the City has placed monies for investment with the Kalamazoo Community Foundation (KCF). These monies, amounting to \$2,570,170 as of December 31, 2005, are pooled with other KCF funds and invested at the discretion of KCF, which for purposes of the City essentially functions as an external investment pool. Investments in external investment pools are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

Custodial Credit Risk - Investments. Following is a summary of investments as of December 31, 2005:

U.S. agencies	\$ 26,218,525
Equity mutual funds	4,006,995
Money market	<u>5,959,590</u>
Total	<u>\$ 36,185,110</u>

For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that investment securities be held in third-party safekeeping by a designated institution and that the safekeeping agent follow the procedure of delivery vs. payment. As of December 31, 2005, none of the City's investments, excluding the mutual funds and money market accounts which are not subject to custodial credit risk, were exposed to risk since the securities are held in the City's name by the counterparty.

Credit Risk. As of December 31, 2005, all of the City's investments in securities of U.S. agencies were rated AAA by Standard & Poor's. The City also held investments in equity mutual funds and money market accounts, which are not rated. All of the City's investments comply with its policy regarding the types of investments it may hold.

Concentration of Credit Risk. At December 31, 2005, the investment portfolio was concentrated as follows:

<u>Investment Type</u>	<u>Issuer</u>	<u>% of Portfolio</u>
U.S. agencies	Federal Home Loan Banks	30.0%
	Federal National Mortgage Association	23.4%
	Federal Home Loan Mortgage Association	19.1%

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

Among other provisions, the City's investment policy permits the entire portfolio to be invested in obligations of U.S. agencies with the limitation that no more than 35% may be placed with a single institution. The policy neither provides for nor prohibits the placement of funds with community foundations.

Interest Rate Risk. As of December 31, 2005, \$15,322,434 of U.S. agencies securities was due within one year; the remaining balance of \$10,896,091 was due within two years. The City's policy provides that the maximum weighted average maturity will be limited to 18 months.

A-2. Deposits and Investments – Pension Trust Fund

Cash and Short-term Investments - The Pension Trust Fund (or the "System") does not maintain any checking or other demand/time deposit accounts. Amounts reported as cash and short-term investments in the statement of plan net assets include cash and money market accounts held by the System's investment managers. These accounts are insured by the Securities Investors Protection Act for up to \$500,000 each. The carrying amount of these accounts as of December 31, 2005 were \$2,568,664, of which the insured amount was \$747,751. The remaining balance of \$1,820,913 was uninsured and uncollateralized.

Investments - The System is authorized by the State's Pension Investment Act, as amended, to invest in common stocks, real estate, and various other obligations, subject to certain limitations. The System's Investment Committee is responsible for recommending to the City Commission the investment policies and strategies, and retaining/monitoring the various investment managers, trustees, advisors, actuaries and other fiduciaries utilized by the System. The City Commission is responsible for approving the recommendations of the Investment Committee.

The System's investments are held in 11 portfolios administered by six investment managers. Following is a summary of the System's investments as of December 31, 2005:

U.S. treasuries	\$ 67,841,669
U.S. agencies	29,412,261
Corporate debt securities	21,215,623
Equity mutual funds	326,944,480
Real estate mutual funds	<u>23,367,965</u>
	<u>\$468,781,998</u>

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

Credit Risk. The System's investment policy provides that its investments in bonds must be rated in the top four major grades as determined by two nationally recognized statistical rating organizations. As of December 31, 2005, the System's investments in fixed income securities were rated by Standard & Poor's and Moody's as follows:

	<u>U.S. agencies</u>	<u>Corporate debt securities</u>
Standard & Poor's		
AAA	\$ 22,337,645	\$ 8,414,792
AA	1,758,142	3,784,424
A	-	3,807,339
BBB	-	4,504,124
Not rated	5,316,474	704,944
	<u>\$ 29,412,261</u>	<u>\$ 21,215,623</u>
Moody's		
AAA	\$ 24,002,483	\$ 7,962,726
AA	1,758,142	4,937,703
A	-	3,915,025
BAA	-	3,695,225
Not rated	3,651,636	704,944
	<u>\$ 29,412,261</u>	<u>\$ 21,215,623</u>

Custodial Credit Risk. For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The System's investment policy does not address custodial credit risk. Although uninsured and unregistered, the System's investments are not exposed to custodial credit risk since the securities are held by the counterparty in the System's name. Investments in mutual funds and money market funds are not subject to custodial credit risk.

Concentration of Credit Risk. The System's investments are not exposed to concentration of credit risk relative to a single issuer (i.e., company or government agency) inasmuch as no holdings equal or exceed 5% or more of total investments.

The System's investment policy and State statutes provide that no more than 70% of the total investments may be in equity holdings and no more than 5% in real estate. As of December 31, 2005, the System's equity holdings accounted for 69.4% of the total investment portfolio; the System's holdings in real estate were just under 5% at December 31, 2005.

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

Interest Rate Risk. As of December 31, 2005, maturities of the System's debt securities were as follows:

	Fair Value	Investment Maturities (fair value by years)			
		Less Than 1	1-5	6-10	More Than 10
U.S. treasuries	\$ 67,841,669	\$ -	\$ 11,833,001	\$ 5,565,779	\$ 50,442,890
U.S. agencies	29,412,261	2,690,061	5,970,591	2,464,598	18,287,011
Corporate debt securities	21,215,623	100,893	8,896,763	3,646,604	8,571,363
Total debt securities	\$ 118,469,553	\$ 2,790,953	\$ 26,700,355	\$ 11,676,981	\$ 77,301,264

The System's investment policy does not address interest rate risk.

Derivatives. The System's investment policy permits the prudent use of derivatives to reduce portfolio risk and enhance investment return. Under the terms of the investment agreements, portfolio managers are required to report all derivative holdings on a quarterly basis. The Investment Committee monitors these reports to evaluate the System's exposure to credit, market and legal risk.

The portfolios managed by one of the investment managers utilize U.S. currency futures contracts, a type of derivative, to reduce overall portfolio volatility caused by interest rate risk. At December 31, 2005, the System had receivable futures contracts with a fair value of \$23,313,875 and payable futures contracts with a fair value of \$11,888,593. A cumulative gain on futures contracts amounting to \$34,987 has been recognized by the System through December 31, 2005.

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

B. Receivables and Deferred Revenue

Receivables in the primary government are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Accounts	\$ 4,837,390	\$ -
Customer accounts	-	5,189,249
Taxes	7,479,817	-
Special assessments	223,145	63,690
Interest	74,547	5,764
Due from other governments	1,777,107	-
Notes	7,146,806	7,113
Due from component units	7,860,765	-
Advances to component units	<u>3,692,795</u>	<u>237,175</u>
	<u>\$ 33,092,372</u>	<u>\$ 5,502,991</u>

Customer accounts receivable of the Wastewater and Water Enterprise Funds are reported net of allowances for uncollectible accounts of \$8,600 and \$25,500, respectively. Of the amounts presented above, approximately \$11 million is not expected to be collected within a period of one year.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in governmental activities were as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Governmental funds			
Property taxes receivable	\$ 5,812,018	\$ -	\$ 5,812,018
Grants and contracts received in advance of meeting all eligibility requirements	-	534,898	534,898
Long-term receivables	<u>17,950,837</u>	<u>-</u>	<u>17,950,837</u>
	23,762,855	534,898	24,297,753
Internal service funds			
Other	<u>-</u>	<u>17,600</u>	<u>17,600</u>
	<u>\$ 23,762,855</u>	<u>\$ 552,498</u>	<u>\$ 24,315,353</u>

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

C. Capital Assets

Capital assets activity for the year ended December 31, 2005, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 29,516,199	\$ -	\$ (18,348)	\$ 29,497,851
Construction in progress	16,911	10,869,410	(16,911)	10,869,410
Total capital assets not being depreciated	29,533,110	10,869,410	(35,259)	40,367,261
Capital assets being depreciated:				
Building & improvements	41,576,146	128,652	(5,182,011)	36,522,787
Land improvements	3,055,267	332,257	(20,339)	3,367,185
Machinery and equipment	9,674,904	916,703	(94,751)	10,496,856
Vehicles	10,630,673	571,859	(187,581)	11,014,951
Infrastructure	171,063,240	5,395,763	-	176,459,003
Total capital assets being depreciated	236,000,230	7,345,234	(5,484,682)	237,860,782
Accumulated depreciation:				
Building & improvements	(10,237,868)	(694,643)	2,753,608	(8,178,903)
Land improvements	(1,632,497)	(127,792)	20,339	(1,739,950)
Machinery and equipment	(5,668,022)	(680,816)	87,682	(6,261,156)
Vehicles	(6,888,548)	(1,019,445)	187,151	(7,720,842)
Infrastructure	(86,593,930)	(3,415,663)	-	(90,009,593)
Total accumulated depreciation	(111,020,865)	(5,938,359)	3,048,780	(113,910,444)
Total capital assets being depreciated, net	124,979,365	1,406,875	(2,435,902)	123,950,338
Governmental Activities				
capital assets, net	\$ 154,512,475	\$ 12,276,285	\$ (2,471,161)	\$ 164,317,599

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities				
Capital assets not being depreciated:				
Land	\$ 2,875,383	\$ -	\$ -	\$ 2,875,383
Construction in progress	3,052,770	2,639,382	(1,200,098)	4,492,054
Total capital assets not being depreciated	5,928,153	2,639,382	(1,200,098)	7,367,437
Capital assets being depreciated:				
Building & improvements	88,128,900	59,494	(106,584)	88,081,810
Land improvements	11,193,187	1,321,948	-	12,515,135
Machinery and equipment	46,763,747	799,827	(74,807)	47,488,767
Infrastructure	127,362,860	5,242,680	(38,119)	132,567,421
Vehicles	3,907,569	308,137	(130,032)	4,085,674
Intangible assets	234,810	414,590	-	649,400
Total capital assets being depreciated	277,591,073	8,146,676	(349,542)	285,388,207
Accumulated depreciation:				
Building & improvements	(29,162,585)	(1,713,455)	26,646	(30,849,394)
Land improvements	(6,092,488)	(350,236)	-	(6,442,724)
Machinery and equipment	(32,821,395)	(2,021,827)	68,372	(34,774,850)
Infrastructure	(44,118,727)	(2,654,450)	38,030	(46,735,147)
Vehicles	(2,778,098)	(315,182)	130,032	(2,963,248)
Intangible assets	(34,964)	(44,211)	-	(79,175)
Total accumulated depreciation	(115,008,257)	(7,099,361)	263,080	(121,844,538)
Total capital assets being depreciated, net	162,582,816	1,047,315	(86,462)	163,543,669
Business-type activities capital assets, net	\$ 168,510,969	\$ 3,686,697	\$ (1,286,560)	\$ 170,911,106

Depreciation expense was charged to functions/programs of the primary government as follows:

Depreciation of governmental activities by function:

General government	\$ 315,119
Public safety (combined police & fire)	1,346,276
Community Development & Planning	16,360
Parks	243,781
Recreation	19,986
Public Works	9,417
Streets	3,415,662

Capital assets held by the government's internal

service funds are charged to the various

functions based on their usage of the assets

571,758

\$ 5,938,359

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

Depreciation of business-type activities by function:

Wastewater	\$ 4,096,884
Water	2,621,953
Other	3,960
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>376,564</u>
	<u>\$ 7,099,361</u>

D. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2005, was as follows:

	<u>Receivables</u>	<u>Payables</u>
Due to/from other funds:		
General Fund	\$ 527,443	\$ 656,882
Major Street	387,065	995,639
Local Street	756,790	424,314
Solid Waste	1,566	87,766
Neighborhood and Community Development	260	366,333
Building Authority	5	83,625
Capital Improvement Projects	815,493	140,759
Cork Street Landfill Capital Projects	-	67,281
Nonmajor governmental funds	124,383	292,708
Wastewater	238,808	607,335
Water	729,053	620,997
Nonmajor enterprise funds	-	237
Internal service funds	3,181,239	2,463,229
Pension Trust fund	<u>45,000</u>	<u>-</u>
	<u>\$ 6,807,105</u>	<u>\$ 6,807,105</u>
Advances to/from other funds:		
General Fund	\$ 340,000	\$ -
Local Street	-	7,641
Capital Improvements Project	7,641	-
Internal service funds	<u>-</u>	<u>340,000</u>
	<u>\$ 347,641</u>	<u>\$ 347,641</u>

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. In addition, certain amounts are reported as internal balances in the statement of net assets relative to the elimination of the internal service funds.

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

	<u>Transfers In</u>	<u>Transfers Out</u>
Interfund transfers:		
General Fund	\$ 25,300	\$ 3,181,686
Major Street	817,000	2,373,575
Local Street	750,000	762,358
Solid Waste	-	301,775
Neighborhood and Community Development	-	36,445
Building Authority Debt Service	1,178,679	-
Capital Improvement Projects	3,116,307	2,588,595
Nonmajor governmental funds	4,579,361	389,787
Internal service funds	-	832,426
	<u>\$ 10,466,647</u>	<u>\$ 10,466,647</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

E. Long-Term Debt

General Obligation Bonds. The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both general government and proprietary activities. These bonds are reported in the proprietary funds if they are expected to be repaid from proprietary fund revenues. In addition, general obligation bonds have been issued to refund both general obligation and revenue bonds.

General obligation bonds are direct obligations and pledge the full faith and credit of the City. These bonds are issued as serial bonds with varying amounts of principal maturing each year. The original amount of the general obligation bonds issued was \$81,925,000. General obligation bonds currently outstanding are as follows:

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

General Obligation Bonds

Governmental Activities:

	Issuance Date	Interest Rates	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
1992 Downtown Development	3/1/1992	5.50%-5.80%	1,825,000	\$ -	\$ 175,000	\$ 1,650,000	\$ 175,000
1993 Building Authority Parking System	3/1/1993	5.25%-5.90%	200,000	-	95,000	105,000	105,000
1993 Building Authority Parking System Refunding	6/15/1993	4.30%-5.25%	705,000	-	420,000	285,000	285,000
1993 Downtown Development Refunding	6/15/1993	4.30%-5.50%	2,290,000	-	200,000	2,090,000	210,000
1994 Building Authority General Facility Renovation	6/1/1994	4.70%-6.00%	-	-	-	-	-
1994 Building Authority Parking System	8/1/1994	4.60%-6.00%	530,000	-	155,000	375,000	375,000
1997 Building Authority Parking System Refunding	10/1/1997	3.90%-4.90%	1,255,000	-	280,000	975,000	-
1997 Downtown Development Refunding	10/1/1997	4.70%-5.35%	2,130,000	-	-	2,130,000	5,000
1998 Building Authority Refunding	11/17/1998	3.35%-5.25%	6,525,000	-	1,145,000	5,380,000	95,000
1998 Building Authority KMG	12/1/1998	3.80%-5.00%	1,370,000	-	70,000	1,300,000	75,000
1999 Building Authority	9/1/1999	5.13%-5.38%	8,385,000	-	7,400,000	985,000	230,000
2000 Cork Street Environmental	4/24/2000	4.25%-4.50%	295,000	-	295,000	-	-
2001 Building Authority	4/1/2001	4.00%-5.00%	3,250,000	-	90,000	3,160,000	95,000
2002 Building Authority	1/1/2002	2.00%-4.75%	910,000	-	60,000	850,000	65,000
2002 Mayor's Riverfront Environmental	8/1/2002	2.50%-4.15%	890,000	-	280,000	610,000	295,000
2003 Building Authority	1/27/2003	1.75%-3.75%	1,765,000	-	175,000	1,590,000	175,000
2004 Capital Improvement	4/27/2004	2.00%-4.70%	8,415,000	-	645,000	7,770,000	645,000
2005 Parking Ramp Bonds	4/11/2005	5.00%-5.25%	-	7,325,000	200,000	7,125,000	105,000
2005B Parking Ramp Bonds	10/12/2005	5.00%-5.25%	-	2,835,000	-	2,835,000	55,000
2005 Refunding Bonds	7/26/2005	5.125%-5.50%	-	7,725,000	-	7,725,000	40,000
Total General Obligation Bonds			\$ 40,740,000	\$ 17,885,000	\$ 11,685,000	\$ 46,940,000	\$ 3,030,000

Annual debt service requirements to maturity for general obligation bonds are as follows:

Years Ending December 31	Governmental Activities	
	Principal	Interest
2006	\$ 3,030,000	\$ 1,739,936
2007	3,505,000	1,620,562
2008	3,250,000	1,479,653
2009	3,325,000	1,344,638
2010	2,995,000	1,212,045
2011 - 2015	13,890,000	4,291,058
2016 - 2020	7,925,000	2,134,665
2021 - 2025	5,970,000	1,150,726
2026 - 2030	3,050,000	308,669
Total	\$ 46,940,000	\$ 15,281,952

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

Revenue Bonds. The City also issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. The original amount of revenue bonds issued was \$18,010,000 for governmental activities and \$29,435,000 for business-type activities. Revenue bonds outstanding at year end are as follows:

	Issuance Date	Interest Rates	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds							
<i>Governmental Activities:</i>							
1994 Michigan Transportation Fund	6/1/1994	4.75%-5.90%	\$ 475,000	\$ -	\$ 110,000	\$ 365,000	\$ 115,000
1996 Michigan Transportation Fund	3/1/1996	3.90%-5.10%	1,430,000	-	170,000	1,260,000	180,000
1998 Michigan Transportation Fund	4/1/1998	3.60%-4.75%	1,560,000	-	140,000	1,420,000	145,000
2000 Michigan Transportation Fund	4/24/2000	4.88%-5.13%	2,305,000	-	155,000	2,150,000	165,000
2002 Michigan Transportation Fund Refunding	4/1/2002	2.50%-4.88%	2,835,000	-	560,000	2,275,000	585,000
2004 Michigan Transportation Fund Refunding	4/27/2004	3.00%-3.70%	4,320,000	-	395,000	3,925,000	400,000
<i>Total Governmental Activities</i>			12,925,000	-	1,530,000	11,395,000	1,590,000
<i>Business-Type Activities:</i>							
1995 Water System	2/1/1995	5.50%-6.00%	200,000	-	200,000	-	-
1996 Water System	6/1/1996	5.13%-5.63%	3,035,000	-	205,000	2,830,000	210,000
2001 Wastewater System Refunding	4/1/2001	3.00%-5.00%	4,205,000	-	185,000	4,020,000	195,000
2002 Water System Refunding	6/6/2002	4.50%-4.75%	8,380,000	-	420,000	7,960,000	440,000
2002 Water System Refunding	10/23/2002	2.00%-3.88%	3,055,000	-	50,000	3,005,000	265,000
2004 Water System Refunding	4/27/2004	2.00%-4.65%	5,010,000	-	135,000	4,875,000	135,000
<i>Total Business-Type Activities</i>			23,885,000	-	1,195,000	22,690,000	1,245,000
<i>Total Revenue Bonds</i>			\$ 36,810,000	\$ -	\$ 2,725,000	\$ 34,085,000	\$ 2,835,000

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

Annual debt service requirements to maturity for revenue bonds are as follows:

Years Ending December 31	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2006	\$ 1,590,000	\$ 464,716	\$ 1,245,000	\$ 1,030,691
2007	1,185,000	398,502	1,295,000	983,123
2008	1,230,000	348,038	1,345,000	931,693
2009	1,150,000	295,002	1,405,000	877,203
2010	1,200,000	246,964	1,460,000	816,491
2011 - 2015	4,835,000	528,481	8,400,000	3,023,195
2016 - 2020	205,000	9,993	5,165,000	1,230,975
2021 - 2025	-	-	1,200,000	442,719
2026 - 2030	-	-	1,175,000	139,664
Total	\$ 11,395,000	\$ 2,291,694	\$ 22,690,000	\$ 9,475,753

Special Assessment Debt. The City issues special assessment limited tax bonds to provide funds for certain downtown street improvement projects. The City intends to repay this debt through collections of special assessments. However, these bonds are backed by the full faith and credit of the City and, in the event that special assessment revenues are insufficient to cover debt service expenditures, the City is obligated to make up any shortfall. Management considers the likelihood of this occurring to be extremely remote. The original amount of special assessment bonds was \$680,000. Special assessment bonds outstanding at year end are as follows:

	Issuance Date	Interest Rates	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Special Assessment Bonds							
<i>Governmental Activities:</i>							
1999 Special Assessment Limited Tax Bonds	9/1/1999	4.40%-7.00%	\$ 425,000	\$ -	\$ 45,000	\$ 380,000	\$ 45,000

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

Annual debt service requirements to maturity for special assessment bonds are as follows:

Years Ending December 31	Governmental Activities	
	Principal	Interest
2006	\$ 45,000	\$ 18,800
2007	50,000	16,730
2008	50,000	14,380
2009	50,000	11,980
2010	45,000	9,530
2011 - 2015	140,000	14,650
Total	\$ 380,000	\$ 86,070

Installment Obligations. The City has entered into various long-term installment payment agreements which are similar in nature to bonds. The original amount of installment obligations issued was \$5,357,055 for governmental activities. Installment obligations outstanding at December 31, 2005, are as follows:

	Issuance Date	Interest Rates	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Installment Purchase Contracts							
<i>Governmental Activities:</i>							
1995 Sutherland Bleachers Installment Purchase Obligation	12/1/1995	6.25%-7.30%	\$ 180,000	\$ -	\$ 180,000	\$ -	\$ -
1997 Fire Equipment	6/16/1997	5.60%	388,400	-	122,700	265,700	129,400
2000 Fire Equipment	6/22/2000	5.35%	84,000	-	84,000	-	-
2000 Cable Access	7/24/2000	5.38%	221,000	-	60,000	161,000	63,000
2002 KMGA Golf Carts	3/12/2002	4.08%	96,685	-	47,376	49,309	49,309
2005 KMGA	4/25/2005	3.85%	-	260,000	-	260,000	61,000
Total Installment Purchase Contracts			\$ 970,085	\$ 260,000	\$ 494,076	\$ 736,009	\$ 302,709

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

Annual debt service requirements to maturity for installment obligations are as follows:

Years Ending December 31	Governmental Activities	
	Principal	Interest
2006	\$ 302,709	\$ 33,539
2007	266,300	18,437
2008	87,000	5,374
2009	80,000	1,623
Total	\$ 736,009	\$ 58,972

Other Debt. The City has also recorded liabilities related to certain environmental matters, accumulated compensated absences and a tax tribunal payable.

Environmental matters represent the City's share of estimated costs associated with the cleanup of certain sites with soil contamination for which the City is named as a potentially responsible party.

The accumulated compensated absences represent the estimated liability to be paid to governmental fund type employees under the City's sick and vacation pay policy. Under the City's policy, employees earn sick and vacation time based on time of service with the government. For the governmental activities, compensated absences, the uninsured claim liability, and death benefits payable are generally liquidated by the insurance and benefits internal service fund. Other sundry long-term liabilities are generally liquidated by the General Fund.

Advance and Current Refundings. In prior years, the City defeased certain bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. During 2005, the City partially defeased four bond issues: its 1993, 1997 and 1998 Building Authority Refunding Bonds, having outstanding principal amounts of \$705,000, 1,255,000 and \$6,525,000, respectively, and its 1999 Building Authority general obligation bonds, having an outstanding principal amount of \$8,385,000.

The City's current year refundings were undertaken to reduce total debt service expenditures over the next 20 years by \$406,715, and resulted in economic gains of \$316,029.

Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. At December 31, 2005, \$13,256,146 of bonds outstanding from current and prior year refundings are considered defeased.

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

No Commitment Debt. Excluded from the statement of net assets are bonds issued under the Industrial Development Revenue Bond Act of 1963, as amended, which authorizes municipalities to acquire and lease industrial sites, buildings and equipment. Also excluded are revenue bonds issued by the Economic Development Corporation and Hospital Finance Authority to acquire and lease property to third parties. The revenue bonds issued are payable solely from the net revenue derived from the respective leases and are not a general obligation of the City. After these bonds are issued, all financial activity is taken over by the paying agent. The bonds and related lease contracts, amounting to \$322,820,000, are not reflected in the City's financial statements. Information regarding the status of each bond issue, including possible default, must be obtained from the paying agent or other knowledgeable sources.

Changes in Long-Term Debt. Long-term liability activity for the year ended December 31, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government					
Governmental Activities					
General obligation bonds	\$ 40,740,000	\$ 17,885,000	\$ 11,685,000	\$ 46,940,000	\$ 3,030,000
Revenue bonds	12,925,000	-	1,530,000	11,395,000	1,590,000
Special assessment bonds	425,000	-	45,000	380,000	45,000
Installment purchase contracts	970,085	260,000	494,076	736,009	302,709
Compensated absences	6,431,926	2,247,435	3,285,523	5,393,838	674,230
Public safety comp time	310,076	54,985	-	365,061	182,530
Environmental matters	1,277,982	-	493,376	784,606	5,000
Tax tribunal payable	238,090	-	119,045	119,045	119,045
Uninsured claim liability	3,724,238	-	260,233	3,464,005	1,622,749
Death benefits payable	252,583	-	538	252,045	-
Add: unamortized bond premium	-	173,669	-	173,669	-
Total Governmental Activities	\$ 67,294,980	\$ 20,621,089	\$ 17,912,791	\$ 70,003,278	\$ 7,571,263
Business-Type Activities					
Revenue bonds	\$ 23,885,000	\$ -	\$ 1,195,000	\$ 22,690,000	\$ 1,245,000
Compensated absences	1,796,380	1,007,797	924,403	1,879,774	234,972
Total Business-Type Activities	\$ 25,681,380	\$ 1,007,797	\$ 2,119,403	\$ 24,569,774	\$ 1,479,972

F. Short-Term Debt

The City issued and repaid \$5,500,000 of tax revenue anticipation notes during the year ended December 31, 2005. The purpose of this short-term debt is to provide liquidity for governmental operations financed by property taxes, which are collected throughout the year.

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

IV. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (i.e., workers' compensation), as well as medical and death benefits provided to employees. The City has purchased commercial insurance for excess claims for workers' compensation, medical claims, general and auto liability, auto physical damage and property loss claims. The City is primarily self-insured for workers' compensation, medical claims, general liability and property damage claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The City estimates the liability for its self-insured coverages and includes both those claims that have been reported as well as those that have not yet been reported. These estimates are prepared with the assistance of the City's third-party administrators for claims management and are recorded in the Insurance and Benefits internal service fund. The long-term portion of the workers' compensation liability has been discounted at a 6 percent present value factor. Changes in the estimated liability are as follows:

	<u>2005</u>	<u>2004</u>
Estimated liability, beginning of year	\$ 3,976,821	\$5,061,660
Estimated claims incurred, including changes in estimates	16,448,454	4,402,559
Claim payments	(16,709,225)	(5,487,398)
Estimated liability, end of year	<u>\$ 3,716,050</u>	<u>\$3,976,821</u>

B. Property Taxes

Property taxes attach as an enforceable lien on property as of January 1 and are levied on July 1. The City bills and collects its own property taxes for general governmental services, solid waste collection and downtown development and also collects taxes for the Metro Transit System, Kalamazoo County, Kalamazoo Valley Community College, the District Library and various school districts. Collections of property taxes and remittances of them to the appropriate authorities are accounted for in the Tax Collector's Agency Fund.

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

The City is permitted by State law to levy taxes up to \$20.00 per \$1,000 of assessed valuation of property for general governmental services other than the payment of principal and interest on long-term debt. The authority to tax the residents for the payment of principal and interest on long-term debt is obtained when the debt is approved by a vote of the people. The City's current year tax rate was the maximum \$19.2705 per \$1,000 of assessed valuation for general operations (after applying the Headlee constitutional rollback adjustment).

The City is currently levying \$1.87 per \$1,000 of assessed valuation for solid waste collection. State laws allow an additional nonvoted solid waste levy of \$1.65 per \$1,000 of assessed valuation.

The Metro Transit System is permitted by P.A. 55 of the Public Acts of 1963, as amended, to levy a tax to assist in the operation of the transit system. During the current year, the System levied a voted millage of \$1.00 per \$1,000 of assessed valuation.

The Downtown Development Authority is permitted by P.A. 197 of Michigan to levy taxes up to \$2.00 per \$1,000 of assessed valuation of property in the downtown district. The Authority's current year tax rate was the maximum \$2.00 per \$1,000 of assessed valuation.

Taxpayers may elect to pay their tax bills in 12 equal monthly installments beginning on July 1 and on the first day of each of the next 11 months. As a result, for those taxpayers electing the installment payment plan, up to one-half of their property tax levy is collected after the fiscal year end. Because a portion of those taxes are due and collected more than 60 days after year end, they are not susceptible to accrual. Accordingly, those amounts are recorded as deferred revenue as of December 31 and then recognized as revenue in the subsequent year.

For budgeting purposes, the taxes levied in the current year are intended to finance the operations of the current year. Therefore, the Schedules of Revenue, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Budgetary Basis) and Actual include the full amount of the current year tax levy as revenue of the current year, to be consistent with the budget presentation.

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

C. Contingent Liabilities

Lawsuits

The City is a defendant in various legal actions arising in the normal course of its activities including certain discrimination cases on file with the Equal Employment Opportunity Commission and the Michigan Department of Civil Rights. In the opinion of the City Attorney and management, the potential uninsured liability that may result from these actions should not exceed amounts either reserved in the Insurance and Benefits Fund (an internal service fund) or included in funds maintained by the City's claims administrators.

Environmental

The City of Kalamazoo has identified a number of sites within its boundaries that are in need of environmental remediation. Some are privately-held properties, and some are owned by the County and/or the City of Kalamazoo. The City of Kalamazoo has been named as a Potentially-Responsible Party (PRP) by the U.S. Environmental Protection Agency (EPA) in two such sites: the Cork Street Landfill and the Auto Ion site. The City has also entered into cleanup agreements, although not named as a PRP, for two other sites. Based on currently-available information, the City has recorded liabilities for the net present value of estimated response costs for these sites in the amount of \$784,606 in the government-wide statements. The City has set aside \$1,086,504 in its Cork Street Landfill construction fund to cover the estimated net present value of costs associated with that site. The landfills do not accept municipal waste as defined by the EPA; therefore, the Government Accounting Standard Board rules on closure and post-closure care costs do not apply.

The City has entered into trust agreements for three of these sites. It acts as Executive Agent for the Cork Street Landfill Trust, the other two trusts being administered by other parties. The Cork Street Landfill Trust is recorded in the Cork Street Landfill Cap Construction Fund. In 2000, the City issued \$1.3 million in environmental bonds for a portion of its share of the costs for the Cork Street landfill. The proceeds of the bonds were placed in the trust; however, the City is solely responsible for the repayment of those bonds, the outstanding balance of which is recorded in the Statement of Net Assets.

The City also has identified a number of additional environmental issues that need to be addressed in the next two to four years. In most of these environmental issues, the City has not been identified as a PRP and, in all of the issues, the City has not determined the ultimate exposure, if any, for these sites. Accordingly, no provision for any loss that may result from the resolution of these matters has been recorded in the financial statements.

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

Commitments

The City is obligated for construction contracts relating to various construction projects in the amount of \$5,611,871. These commitments are not susceptible to accrual. Accordingly, no liabilities have been recorded in the basic financial statements. However, \$5,122,323 of these commitments were made by governmental funds and are, therefore, included within the reservations of fund balance for encumbrances.

D. Postemployment Benefits

The City provides health care benefits to all full-time employees upon retirement, in accordance with its labor contracts. Currently, 1,534 retirees are eligible to receive these benefits. The City includes pre-Medicare retirees and their dependents in its self-insured health care plan. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health care benefits are recognized as they become due; during the year, this amounted to \$4,577,469 (net of \$355,282 of retiree contributions).

E. Defined Benefit Pension Plan

Plan Description

The Employees' Retirement System is the administrator of a single-employer public employees defined benefit retirement system that covers all employees of the City. The Plan was originally established by City ordinance on February 5, 1952 and is maintained as a Pension Trust Fund in the accompanying financial statements. Plan benefit provisions were established and may be amended under the authority of City ordinances. The system provides retirement benefits, as well as death and disability benefits. The system issues a publicly available financial report that includes financial statements and required supplementary information, which may be obtained by writing to the City of Kalamazoo Employees' Retirement System, 241 W. South Street, Kalamazoo, MI 49007.

Summary of Significant Accounting Policies

The financial statements of the Employees' Retirement System are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. The City's contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans.

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

Plan investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair values.

Funding Policy

The contribution requirements of plan members and the City are established and may be amended by the City Commission. Plan members are required to contribute at rates ranging from 1.0% to 6.5% of their annual covered salary, depending on union affiliation. The City is required to contribute at an actuarially determined rate; no employer contributions were required for 2005.

Annual Pension Cost and Net Pension Obligation

The annual pension cost and net pension obligation (NPO) for the current year were as follows:

Annual required contribution (ARC)	\$ -
Interest on net pension obligation	-
Adjustment to annual required contribution	-
Annual pension cost	-
Contributions made	-
 Increase (decrease) in net pension obligation	 -
 Net pension obligation - Beginning of year	 -
 Net pension obligation - End of year	 <u>\$ -</u>

The annual required contributions for 2005 were determined as part of an actuarial valuation of the System as of December 31, 2004, using the individual attained age normal cost actuarial funding method. The actuarial assumptions included: (a) a nominal rate of return on investments, net of expenses, of 7.5% per year compounded annually; (b) projected salary increases of 4.0% per year compounded annually, attributable to inflation; (c) additional projected salary increases ranging from 0.0% to 8.0% per year, depending on age and service, attributable to seniority/merit; and (d) the assumption that pension benefits will increase after retirement from 1.0% to 2.0% per year depending on the bargaining unit, age, and the date of retirement. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis. The remaining amortization period at December 31, 2005, the date of the latest actuarial valuation, was ten years for the System.

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the fair value of investments over a five-year period.

Three-Year Trend Information

<u>Years Ended December 31,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage Contributed</u>	<u>Net Pension Obligation</u>
2003	\$ -0-	-%	\$ -0-
2004	-0-	-	-0-
2005	-0-	-	-0-

GASB Statement 25 required supplementary information is presented after the notes to the financial statements section of this report.

F. Subsequent Events

Subsequent to year end, the City issued \$2,840,000 of Building Authority Bonds and \$6,000,000 in Tax Anticipation Notes. Both debt issues were dated and available for delivery on January 23, 2006.

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CITY OF KALAMAZOO, MICHIGAN
Employees' Retirement System
Required Supplementary Information

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (B)	Overfunded AAL (OAAL) (A-B)	Funded Ratio (A/B)	Covered Payroll (C)	OAAL as A % of Covered Payroll
12/31/1996	\$ 200,667,842	\$ 146,734,144	\$ 53,933,698	136.8%	\$ 34,888,439	154.6%
12/31/1997	242,709,209	161,366,282	81,342,927	150.4%	35,791,434	227.3%
12/31/1998	267,250,249	167,726,504	99,523,745	159.3%	35,607,350	279.5%
12/31/1999	303,750,495	192,167,206	111,583,289	158.1%	37,541,170	297.2%
12/31/2000	331,521,519	208,070,230	123,451,289	159.3%	39,377,238	313.5%
12/31/2001	349,206,708	220,302,430	128,904,278	158.5%	41,595,437	309.9%
12/31/2002	348,677,897	230,979,927	117,697,970	151.0%	40,316,918	291.9%
12/31/2003	361,205,383	245,919,424	115,285,959	146.9%	40,914,264	281.8%
12/31/2004	390,615,277	265,080,190	125,535,087	147.4%	41,989,819	299.0%
12/31/2005	422,565,761	294,416,007	128,149,754	143.5%	40,944,435	313.0%

Schedule of Employer Contributions

Year Ended December 31	Annual Required Contributions	Percentage Contributed
1996	\$ 1,500,400	100%
1997	840,966	100%
1998	-	-
1999	-	-
2000	-	-
2001	-	-
2002	-	-
2003	-	-
2004	-	-
2005	-	-

CITY OF KALAMAZOO, MICHIGAN
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2005

	Special Revenue Funds	Debt Service Funds	Capital Projects Building Authority Justice Facilities	Permanent Funds	Total Nonmajor Governmental Funds
<u>ASSETS</u>					
Assets					
Cash and cash equivalents	\$ 2,533,751	\$ 162,365	\$ 23,586	\$ 25,905	\$ 2,745,607
Investments	-	-	-	4,006,995	4,006,995
Receivables:					
Notes	727,980	-	-	-	727,980
Special assessments	-	170,381	-	-	170,381
Accrued interest	19,016	-	-	-	19,016
Other	101,858	568,480	-	1,035	671,373
Due from other funds	124,258	125	-	-	124,383
Due from component units	-	309,309	-	-	309,309
Due from other governments	191,071	-	-	-	191,071
Advances to component units	1,986,921	-	-	-	1,986,921
Investments with agents	18,095	-	-	885,862	903,957
<u>TOTAL ASSETS</u>	<u>\$ 5,702,950</u>	<u>\$ 1,210,660</u>	<u>\$ 23,586</u>	<u>\$ 4,919,797</u>	<u>\$ 11,856,993</u>
<u>LIABILITIES AND FUND BALANCE</u>					
Liabilities					
Accounts payable	\$ 73,460	\$ 425	\$ -	\$ -	\$ 73,885
Accrued and other liabilities	60,949	-	-	4,543	65,492
Due to other funds	247,624	59	25	45,000	292,708
Due to other governments	104,934	-	-	-	104,934
Deposits payable	2,904	-	-	-	2,904
Deferred revenue	879,594	1,048,170	-	-	1,927,764
Total liabilities	1,369,465	1,048,654	25	49,543	2,467,687
Fund balance					
Reserved for:					
Encumbrances	109,327	-	-	-	109,327
Advances to component units	1,986,921	-	-	-	1,986,921
Cemetery perpetual care	-	-	-	1,735,160	1,735,160
Recreational activities	-	-	-	885,862	885,862
Unreserved:					
Designated for subsequent years' expenditures	401,397	-	-	-	401,397
Undesignated	1,835,840	162,006	23,561	2,249,232	4,270,639
Total fund balance	4,333,485	162,006	23,561	4,870,254	9,389,306
<u>TOTAL LIABILITIES AND FUND BALANCE</u>	<u>\$ 5,702,950</u>	<u>\$ 1,210,660</u>	<u>\$ 23,586</u>	<u>\$ 4,919,797</u>	<u>\$ 11,856,993</u>

CITY OF KALAMAZOO, MICHIGAN
Combining Statement of Revenue, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended December 31, 2005

	Special Revenue Funds	Debt Service Funds	Capital Projects Building Authority Justice Facilities	Permanent Funds	Total Nonmajor Governmental Funds
Revenue					
Property taxes and special assessments	\$ -	\$ 48,335	\$ -	\$ -	\$ 48,335
Intergovernmental revenue	1,057,524	-	-	-	1,057,524
Charges for services	159,969	-	-	26,949	186,918
Fines and forfeits	368,377	-	-	-	368,377
Interest and dividends	127,912	4,204	672	181,400	314,188
Net investment earnings	-	-	-	293,975	293,975
Local contributions	-	-	-	27,190	27,190
Other revenue	521,165	126,771	-	-	647,936
Total revenue	2,234,947	179,310	672	529,514	2,944,443
Expenditures					
Current expenditures:					
Public safety	1,191,863	-	-	-	1,191,863
Economic Development	539,477	-	-	-	539,477
Community Development & Planning	276,005	-	-	-	276,005
Recreation	242,142	-	-	18,902	261,044
Cemeteries	560,337	-	-	11,276	571,613
Debt service:					
Principal	-	3,289,076	-	-	3,289,076
Interest and fiscal charges	-	901,610	-	-	901,610
Capital outlay	-	-	59	-	59
Total expenditures	2,809,824	4,190,686	59	30,178	7,030,747
Excess (deficiency) of revenue over expenditures	(574,877)	(4,011,376)	613	499,336	(4,086,304)
Other financing sources (uses)					
Transfers in	581,737	3,997,624	-	-	4,579,361
Transfers out	-	-	-	(389,787)	(389,787)
Total other financing sources (uses)	581,737	3,997,624	-	(389,787)	4,189,574
Net change in fund balances	6,860	(13,752)	613	109,549	103,270
Fund balance, beginning of year	4,326,625	175,758	22,948	4,760,705	9,286,036
Fund balance, end of year	\$ 4,333,485	\$ 162,006	\$ 23,561	\$ 4,870,254	\$ 9,389,306

NONMAJOR SPECIAL REVENUE FUNDS

Cemeteries - This fund is used to account for the earmarked revenues set aside for the purpose of operating the City's cemeteries. This fund is classified as a Special Revenue Fund because of the comparatively limited usage of the assets in this fund.

Grants and Donations - This fund is used to account for various programs funded by grants and/or donations that are not accounted for in the other special revenue funds.

Economic Development Programs - This fund is used to account for monies appropriated by the City Commission for economic development activities, such as business loans and loans to the Economic Development Corporation component unit.

Drug Enforcement - This fund is used to account for proceeds of forfeited property seized in connection with a violation of the controlled substance statutes, Public Act 135 of 1985 (MCLA 333,7521-7524). This fund is classified as a Special Revenue Fund because of the limited usage of its assets.

CITY OF KALAMAZOO, MICHIGAN
Combining Balance Sheet
Nonmajor Special Revenue Funds
December 31, 2005

	Cemeteries	Grants and Donations	Economic Development Programs	Drug Enforcement	Total
<u>ASSETS</u>					
Assets					
Cash and cash equivalents	\$ 108,280	\$ 123,711	\$ 1,065,782	\$ 1,235,978	\$ 2,533,751
Receivables:					
Notes	-	-	727,980	-	727,980
Accrued interest	-	-	19,016	-	19,016
Other	11,733	37,670	52,455	-	101,858
Due from other funds	20,612	103,646	-	-	124,258
Due from other governments	-	191,071	-	-	191,071
Advances to component units	-	-	1,986,921	-	1,986,921
Investments with agents	-	18,095	-	-	18,095
<u>TOTAL ASSETS</u>	\$ 140,625	\$ 474,193	\$ 3,852,154	\$ 1,235,978	\$ 5,702,950
<u>LIABILITIES AND FUND BALANCE</u>					
Liabilities					
Accounts payable	\$ 21,095	\$ 20,785	\$ -	\$ 31,580	\$ 73,460
Accrued and other liabilities	855	10,990	-	49,104	60,949
Due to other funds	5,879	226,502	42	15,201	247,624
Due to other governments	-	-	104,934	-	104,934
Deposits payable	-	-	-	2,904	2,904
Deferred revenue	2,450	77,693	799,451	-	879,594
Total liabilities	30,279	335,970	904,427	98,789	1,369,465
Fund balance					
Reserved for:					
Encumbrances	94,744	14,583	-	-	109,327
Advances to component units	-	-	1,986,921	-	1,986,921
Unreserved:					
Designated for subsequent years' expenditures	-	-	-	401,397	401,397
Undesignated	15,602	123,640	960,806	735,792	1,835,840
Total fund balance	110,346	138,223	2,947,727	1,137,189	4,333,485
<u>TOTAL LIABILITIES AND FUND BALANCE</u>	\$ 140,625	\$ 474,193	\$ 3,852,154	\$ 1,235,978	\$ 5,702,950

CITY OF KALAMAZOO, MICHIGAN
Combining Statement of Revenue, Expenditures and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Year Ended December 31, 2005

	Cemeteries	Grants and Donations	Economic Development Programs	Drug Enforcement	Total
Revenue					
Intergovernmental revenue	\$ -	\$ 994,124	\$ -	\$ 63,400	\$ 1,057,524
Charges for services	159,969	-	-	-	159,969
Fines and forfeits	-	-	-	368,377	368,377
Interest revenue	3,300	3,277	93,090	28,245	127,912
Other revenue	-	421,076	38,744	61,345	521,165
Total revenue	163,269	1,418,477	131,834	521,367	2,234,947
Expenditures					
Current expenditures:					
Public safety (combined police and fire)	-	639,396	-	552,467	1,191,863
Cemeteries	560,337	-	-	-	560,337
Economic Development	-	409,452	130,025	-	539,477
Community Development & Planning	-	276,005	-	-	276,005
Recreation	-	242,142	-	-	242,142
Total expenditures	560,337	1,566,995	130,025	552,467	2,809,824
Excess (deficiency) of revenue over expenditures	(397,068)	(148,518)	1,809	(31,100)	(574,877)
Other financing sources					
Transfers in	489,787	91,950	-	-	581,737
Net change in fund balances	92,719	(56,568)	1,809	(31,100)	6,860
Fund balance, beginning of year	17,627	194,791	2,945,918	1,168,289	4,326,625
Fund balance, end of year	\$ 110,346	\$ 138,223	\$ 2,947,727	\$ 1,137,189	\$ 4,333,485

CITY OF KALAMAZOO, MICHIGAN
Schedule of Revenue, Expenditures and Changes in Fund Balance
Budget (GAAP Basis) and Actual
Cemeteries Fund
For the Year Ended December 31, 2005

	Amended Budget	Actual	Variance with Final Budget Positive (Negative)
Revenue			
Charges for services - public services	\$ 170,000	\$ 159,969	\$ (10,031)
Interest	3,850	3,300	(550)
Total revenue	173,850	163,269	(10,581)
Expenditures			
Cemeteries:			
Maintenance	217,551	211,359	6,192
Burials	446,086	348,978	97,108
Total expenditures	663,637	560,337	103,300
Deficiency of expenditures over revenue	(489,787)	(397,068)	92,719
Other financing sources			
Transfers in:			
Capital Improvements Projects	100,000	100,000	-
Cemeteries' Perpetual Care	389,787	389,787	-
Total other financing sources	489,787	489,787	-
Net change in fund balance	-	92,719	92,719
Fund balance, beginning of year	17,627	17,627	-
Fund balance, end of year	\$ 17,627	\$ 110,346	\$ 92,719

CITY OF KALAMAZOO, MICHIGAN
Schedule of Revenue, Expenditures and Changes in Fund Balance
Budget (GAAP Basis) and Actual
Grants and Donations Fund
For the Year Ended December 31, 2005

	Amended Budget	Actual	Variance with Final Budget Positive (Negative)
Revenue			
Intergovernmental revenue:			
Federal grants	\$ 621,968	\$ 538,309	\$ (83,659)
State grants	377,358	455,815	78,457
Interest revenue	-	3,277	3,277
Local contributions	163,487	421,076	257,589
	<hr/>	<hr/>	<hr/>
Total revenue	1,162,813	1,418,477	255,664
	<hr/>	<hr/>	<hr/>
Expenditures			
Public safety (combined police and fire)	660,815	639,396	21,419
Economic development	309,662	409,452	(99,790)
Community development	309,155	276,005	33,150
Parks and recreation	101,751	242,142	(140,391)
	<hr/>	<hr/>	<hr/>
Total expenditures	1,381,383	1,566,995	(185,612)
	<hr/>	<hr/>	<hr/>
Excess (deficiency) of expenditures over revenue	(218,570)	(148,518)	70,052
	<hr/>	<hr/>	<hr/>
Other financing sources			
Transfers in:			
General Fund	22,565	80,805	58,240
Neighborhood and Community Development	30,405	11,145	(19,260)
	<hr/>	<hr/>	<hr/>
Total other financing sources	52,970	91,950	38,980
	<hr/>	<hr/>	<hr/>
Net change in fund balance	(165,600)	(56,568)	109,032
	<hr/>	<hr/>	<hr/>
Fund balance, beginning of year	194,791	194,791	-
	<hr/>	<hr/>	<hr/>
Fund balance, end of year	<u>\$ 29,191</u>	<u>\$ 138,223</u>	<u>\$ 109,032</u>

CITY OF KALAMAZOO, MICHIGAN
Schedule of Revenue, Expenditures and Changes in Fund Balance
Budget (GAAP Basis) and Actual
Economic Development Programs Fund
For the Year Ended December 31, 2005

	Amended Budget	Actual	Variance with Final Budget Positive (Negative)
Revenue			
Interest	\$ -	\$ 93,090	\$ 93,090
Other revenue	-	38,744	38,744
Total revenue	-	131,834	131,834
Expenditures			
Economic Development:			
Small Business Revolving Loan	40,000	40,000	-
Economic Opportunity Fund	90,000	90,025	(25)
Total expenditures	130,000	130,025	(25)
Net change in fund balance	(130,000)	1,809	131,809
Fund balance, beginning of year	2,945,918	2,945,918	-
Fund balance, end of year	\$ 2,815,918	\$ 2,947,727	\$ 131,809

CITY OF KALAMAZOO, MICHIGAN
Schedule of Revenue, Expenditures and Changes in Fund Balance
Budget (GAAP Basis) and Actual
Drug Enforcement Fund
For the Year Ended December 31, 2005

	Amended Budget	Actual	Variance with Final Budget Positive (Negative)
Revenue			
Intergovernmental revenue - federal grants	\$ 30,000	\$ 63,400	\$ 33,400
Fines and forfeits	110,000	368,377	258,377
Interest	30,000	28,245	(1,755)
Other revenue	15,000	61,345	46,345
Total revenue	185,000	521,367	336,367
Expenditures			
Public safety (combined police and fire)	648,587	552,467	96,120
Net change in fund balance	(463,587)	(31,100)	432,487
Fund balance, beginning of year	1,168,289	1,168,289	-
Fund balance, end of year	\$ 704,702	\$ 1,137,189	\$ 432,487

NONMAJOR DEBT SERVICE FUNDS

Special Assessments - This fund is used to account for the debt service activity of the Special Assessments bond issue. Financing is provided through the collection of special assessments from benefiting property owners.

Michigan Transportation Fund - This fund is used to account for the debt service activity of the Michigan Transportation Fund bond issues. Financing is provided by transfers from the Major and Local Streets Special Revenue Funds.

Environmental - This fund is used to account for the debt service activity of the City's environmental issues. Financing is provided through transfers from other funds.

Installment Purchase Contracts - This fund is used to account for the debt service activity of the City's installment obligations. Financing is provided through transfers from other funds and facility rentals.

Mayors' Riverfront Park - This fund is used to account for debt service activity, both public and private, for the debt issued for the City's Mayors' Riverfront Park.

CITY OF KALAMAZOO, MICHIGAN
Combining Balance Sheet
Nonmajor Debt Service Funds
December 31, 2005

	Special Assessments	Michigan Transportation Fund	Environmental
<u>ASSETS</u>			
Assets			
Cash and cash equivalents	\$ 162,365	\$ -	\$ -
Receivables:			
Special assessments	170,381	-	-
Other	-	-	-
Due from other funds	-	-	-
Due from component units	-	-	-
<u>TOTAL ASSETS</u>	<u>\$ 332,746</u>	<u>\$ -</u>	<u>\$ -</u>
<u>LIABILITIES AND FUND BALANCE</u>			
Liabilities			
Accounts payable	\$ 300	\$ -	\$ -
Due to other funds	59	-	-
Deferred revenue	170,381	-	-
Total liabilities	170,740	-	-
Fund balance			
Unreserved, undesignated	162,006	-	-
<u>TOTAL LIABILITIES AND FUND BALANCE</u>	<u>\$ 332,746</u>	<u>\$ -</u>	<u>\$ -</u>

Installment Purchase Contracts	Mayors' Riverfront Park	Total
\$ -	\$ -	\$ 162,365
-	-	170,381
161,000	407,480	568,480
-	125	125
309,309	-	309,309
\$ 470,309	\$ 407,605	\$ 1,210,660

\$ -	\$ 125	\$ 425
-	-	59
470,309	407,480	1,048,170
470,309	407,605	1,048,654
-	-	162,006
\$ 470,309	\$ 407,605	\$ 1,210,660

CITY OF KALAMAZOO, MICHIGAN
Combining Statement of Revenue, Expenditures and Changes in Fund Balances
Nonmajor Debt Service Funds
For the Year Ended December 31, 2005

	Special Assessments	Michigan Transportation Fund	Environmental
Revenue			
Special assessments	\$ 48,335	\$ -	\$ -
Interest	4,204	-	-
Other revenue	-	-	-
	<hr/>	<hr/>	<hr/>
Total revenue	52,539	-	-
	<hr/>	<hr/>	<hr/>
Expenditures			
Debt service:			
Principal	45,000	1,530,000	295,000
Interest and fiscal charges	21,241	529,523	6,775
	<hr/>	<hr/>	<hr/>
Total expenditures	66,241	2,059,523	301,775
	<hr/>	<hr/>	<hr/>
Deficiency of revenue over expenditures	(13,702)	(2,059,523)	(301,775)
	<hr/>	<hr/>	<hr/>
Other financing sources			
Transfers in:			
Major Streets Fund	-	1,623,575	-
Local Streets Fund	-	435,948	-
Solid Waste Fund	-	-	301,775
Capital Improvements Project Fund	-	-	-
	<hr/>	<hr/>	<hr/>
Total other financing sources	-	2,059,523	301,775
	<hr/>	<hr/>	<hr/>
Net change in fund balances	(13,702)	-	-
	<hr/>	<hr/>	<hr/>
Fund balance, beginning of year	175,708	-	-
	<hr/>	<hr/>	<hr/>
Fund balance, end of year	\$ 162,006	\$ -	\$ -
	<hr/>	<hr/>	<hr/>

Installment Purchase Contracts	Mayors' Riverfront Park	Total
\$ -	\$ -	\$ 48,335
-	-	4,204
126,771	-	126,771
126,771	-	179,310
1,139,076	280,000	3,289,076
309,444	34,627	901,610
1,448,520	314,627	4,190,686
(1,321,749)	(314,627)	(4,011,376)
-	-	1,623,575
326,410	-	762,358
-	-	301,775
995,289	314,627	1,309,916
1,321,699	314,627	3,997,624
(50)	-	(13,752)
50	-	175,758
\$ -	\$ -	\$ 162,006

NONMAJOR PERMANENT FUNDS

Cemetery Perpetual Care - This fund is used to account for money held in trust for the perpetual care of graves in the City cemeteries. Revenues consist of interest earnings from the investments, gain on sale of investments and charges for services.

Recreational Endowment - This fund is used to account for monies accumulated for the eventual endowment of recreation activities. Revenues consist of donations and interest earnings of the endowment fund.

CITY OF KALAMAZOO, MICHIGAN
Combining Balance Sheet
Nonmajor Permanent Funds
December 31, 2005

	Cemetery Perpetual Care Fund	Recreation Endowment Funds	Total
<hr/>			
<u>ASSETS</u>			
Assets			
Cash and cash equivalents	\$ 25,905	\$ -	\$ 25,905
Investments	4,006,995	-	4,006,995
Accounts receivable	1,035	-	1,035
Investments with agents	-	885,862	885,862
<hr/>			
<u>TOTAL ASSETS</u>	\$ 4,033,935	\$ 885,862	\$ 4,919,797
<hr/>			
<u>LIABILITIES AND FUND BALANCE</u>			
Liabilities			
Accrued and other liabilities	\$ 4,543	\$ -	\$ 4,543
Due to other funds	45,000	-	45,000
<hr/>			
Total liabilities	49,543	-	49,543
<hr/>			
Fund balance			
Reserved for:			
Cemetery perpetual care	1,735,160	-	1,735,160
Recreational activities	-	885,862	885,862
Unreserved, undesignated	2,249,232	-	2,249,232
<hr/>			
Total fund balance	3,984,392	885,862	4,870,254
<hr/>			
<u>TOTAL LIABILITIES AND FUND BALANCE</u>	\$ 4,033,935	\$ 885,862	\$ 4,919,797
<hr/>			

CITY OF KALAMAZOO, MICHIGAN
Combining Statement of Revenue, Expenditures and Changes in Fund Balances
Nonmajor Permanent Funds
For the Year Ended December 31, 2005

	Cemetery Perpetual Care Fund	Recreation Endowment Funds	Total
Revenue			
Charges for services	\$ 26,949	\$ -	\$ 26,949
Interest and rent	181,400	-	181,400
Net investment earnings	252,769	41,206	293,975
Local contributions	-	27,190	27,190
	<hr/>	<hr/>	<hr/>
Total revenue	461,118	68,396	529,514
	<hr/>	<hr/>	<hr/>
Expenditures			
Current expenditures:			
Recreation	-	18,902	18,902
Cemeteries	11,276	-	11,276
	<hr/>	<hr/>	<hr/>
Total expenditures	11,276	18,902	30,178
	<hr/>	<hr/>	<hr/>
Excess of revenues over expenditures	449,842	49,494	499,336
	<hr/>	<hr/>	<hr/>
Other financing sources uses			
Transfers out	(389,787)	-	(389,787)
	<hr/>	<hr/>	<hr/>
Net change in fund balance	60,055	49,494	109,549
	<hr/>	<hr/>	<hr/>
Fund balance, beginning of year	3,924,337	836,368	4,760,705
	<hr/>	<hr/>	<hr/>
Fund balance, end of year	<u><u>\$ 3,984,392</u></u>	<u><u>\$ 885,862</u></u>	<u><u>\$ 4,870,254</u></u>

NONMAJOR ENTERPRISE FUNDS

City Market Fund - This fund is used to record the operations of a *Farmers' Market*. The fund is classified as an enterprise fund because it does business outside the local unit. Money for the operation of this fund is provided by revenues from the rent charged to the users of the market.

Intermodal Transportation Center Fund - This fund is used to record the operations of an intermodal transportation center and any related grants from the Michigan Department of Transportation. The fund is classified as an enterprise fund because it provides services to persons outside the local unit. Revenues include service fees, state grants and General Fund contributions.

CITY OF KALAMAZOO, MICHIGAN
Combining Statement of Net Assets
Nonmajor Enterprise Funds
December 31, 2005

	City Market	Intermodal Transportation Center	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 39,520	\$ -	\$ 39,520
Noncurrent assets -			
Capital assets, net	94,387	-	94,387
	<hr/>	<hr/>	<hr/>
Total assets	133,907	-	133,907
	<hr/>	<hr/>	<hr/>
Liabilities			
Current liabilities:			
Accounts payable	24	-	24
Accrued liabilities	7,487	-	7,487
Due to other funds	237	-	237
	<hr/>	<hr/>	<hr/>
Total liabilities	7,748	-	7,748
	<hr/>	<hr/>	<hr/>
Net assets			
Invested in capital assets	94,387	-	94,387
Unrestricted	31,772	-	31,772
	<hr/>	<hr/>	<hr/>
Total net assets	\$ 126,159	\$ -	\$ 126,159
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

CITY OF KALAMAZOO, MICHIGAN
Combining Statement of Revenue, Expenses And
Changes in Fund Net Assets
Nonmajor Enterprise Funds
For the Year Ended December 31, 2005

	City Market	Intermodal Transportation Center	Total
Operating revenue			
Charges for services	\$ 32,560	\$ -	\$ 32,560
Operating expenses			
Operation and maintenance	39,154	1,076,426	1,115,580
Depreciation	3,960	-	3,960
Total operating expenses	43,114	1,076,426	1,119,540
Operating loss	(10,554)	(1,076,426)	(1,086,980)
Non-operating revenue			
Interest income	724	-	724
Decrease in net assets	(9,830)	(1,076,426)	(1,086,256)
Net assets, beginning of year	135,989	1,076,426	1,212,415
Net assets, end of year	<u>\$ 126,159</u>	<u>\$ -</u>	<u>\$ 126,159</u>

CITY OF KALAMAZOO, MICHIGAN
Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Year Ended December 31, 2005

	City Market	Intermodal Transportation Center	Total
Cash flows from operating activities			
Cash received from customers	\$ 40,807	\$ 248,815	\$ 289,622
Cash payments to suppliers for goods and services	(20,754)	(1,334,922)	(1,355,676)
Cash payments to employees for services	(17,596)	-	(17,596)
	<u>2,457</u>	<u>(1,086,107)</u>	<u>(1,083,650)</u>
Cash flows from capital and related financing activities			
Sales of capital assets	-	1,079,471	1,079,471
Cash flows from investing activities			
Interest received	724	-	724
	<u>3,181</u>	<u>(6,636)</u>	<u>(3,455)</u>
Net increase (decrease) in cash and cash equivalents			
	3,181	(6,636)	(3,455)
Cash and cash equivalents, beginning of year	36,339	6,636	42,975
Cash and cash equivalents, end of year	<u>\$ 39,520</u>	<u>\$ -</u>	<u>\$ 39,520</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating loss	\$ (10,554)	\$ (1,076,426)	\$ (1,086,980)
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation	3,960	-	3,960
Changes in assets and liabilities:			
Receivables	7,881	26,873	34,754
Due from other funds	366	-	366
Due from component units	-	172,888	172,888
Due from other governments	-	49,054	49,054
Accounts payable	(997)	(257,043)	(258,040)
Accrued liabilities	1,577	-	1,577
Due to other funds	224	(960)	(736)
Due to component units	-	(493)	(493)
Net cash provided (used) by operating activities	<u>\$ 2,457</u>	<u>\$ (1,086,107)</u>	<u>\$ (1,083,650)</u>

INTERNAL SERVICE FUNDS

Engineering Fund - This fund is used to account for the operations of the City's Engineering Department. Financing is provided through user charges.

Printing Services Fund - This fund is used to record the operations of printing and mailing services. Financing is provided by reimbursements from the operating funds for materials and services rendered.

City-Wide Maintenance Fund – This fund is used to account for buildings and grounds maintenance operations for the City's various properties. User fees are charged to various funds and departments.

Management Information Systems Fund - This fund is used to record the operations of the management information systems department, which includes procurement and maintenance of equipment and computing support for informational needs of the City. Financing is provided by reimbursement from user service charges.

Public Works Equipment Fund - This fund is used to account for the procurement and maintenance of equipment to be used on various public work projects. Revenues are provided through vehicle and equipment rental charges and maintenance service billings. This fund also accounts for the administration and engineering of streets, storm sewers, parks and sidewalks. User funds and departments are billed to recover costs.

Insurance and Benefits Fund - This fund is used to account for payment of approved insurance claims, public liability, hospitalization insurance, workers' compensation, pension contributions, postemployment benefits, etc. The City is primarily self-insured and finances its insurance payments through budgeted transfers from other funds.

Public Utilities Equipment Fund - This fund is used to account for the procurement and maintenance of equipment to be used by the Wastewater and Water Departments. Revenues are provided through vehicle and equipment rental charges and maintenance service billings.

CITY OF KALAMAZOO, MICHIGAN
Combining Statement of Net Assets
Internal Service Funds
December 31, 2005

	Governmental Activities			
	Engineering	Printing Services	City-Wide Maintenance	Management Information Systems
Assets				
Current assets:				
Cash and cash equivalents	\$ 22,997	\$ 1,953	\$ 27,924	\$ 988,442
Other receivables	13,749	-	5,109	1,907
Due from other funds	318,207	24,936	255,056	866,139
Due from component units	-	3,730	-	9,522
Inventories	-	12,786	-	-
Prepaid items and other assets	905	-	-	225
Total current assets	355,858	43,405	288,089	1,866,235
Noncurrent assets:				
Restricted cash	-	-	-	-
Capital assets	-	-	-	362,845
Total noncurrent assets	-	-	-	362,845
Total assets	355,858	43,405	288,089	2,229,080
Liabilities				
Current liabilities:				
Accounts payable	6,747	313	18,040	111,311
Accrued and other liabilities	42,194	372	16,772	19,453
Due to other funds	367,475	74,303	246,450	12,602
Due to component units	-	24	-	-
Advance from other funds	-	-	-	-
Deferred revenue	-	-	-	17,600
Current portion of compensated absences	-	-	-	6,042
Current portion of long-term debt	-	-	-	-
Total current liabilities	416,416	75,012	281,262	167,008
Noncurrent liabilities:				
Compensated absences payable	-	-	-	42,292
Employee death benefits payable	-	-	-	-
Uninsured claim liability	-	-	-	-
Total noncurrent liabilities	-	-	-	42,292
Total liabilities	416,416	75,012	281,262	209,300
Net assets				
Invested in capital assets	-	-	-	362,845
Restricted for asset replacement	-	-	-	1,656,935
Unrestricted (deficit)	(60,558)	(31,607)	6,827	-
Total net assets	\$ (60,558)	\$ (31,607)	\$ 6,827	\$ 2,019,780

			Business-type Activities	
Public Works Equipment	Insurance and Benefits	Subtotal Governmental Activities	Public Utilities Equipment	Total
\$ 2,286	\$ 5,479,398	\$ 6,523,000	\$ 220,299	\$ 6,743,299
47,631	18,293	86,689	-	86,689
506,619	1,066,962	3,037,919	143,320	3,181,239
11,179	57,166	81,597	-	81,597
145,335	-	158,121	33,881	192,002
-	-	1,130	-	1,130
713,050	6,621,819	9,888,456	397,500	10,285,956
-	-	-	824,627	824,627
1,443,153	-	1,805,998	1,321,252	3,127,250
1,443,153	-	1,805,998	2,145,879	3,951,877
2,156,203	6,621,819	11,694,454	2,543,379	14,237,833
102,763	158,998	398,172	42,469	440,641
45,105	392,655	516,551	3,187	519,738
983,944	736,407	2,421,181	42,048	2,463,229
-	-	24	-	24
-	340,000	340,000	-	340,000
-	-	17,600	-	17,600
9,568	-	15,610	4,579	20,189
-	1,622,749	1,622,749	-	1,622,749
1,141,380	3,250,809	5,331,887	92,283	5,424,170
66,980	-	109,272	32,058	141,330
-	252,045	252,045	-	252,045
-	1,841,256	1,841,256	-	1,841,256
66,980	2,093,301	2,202,573	32,058	2,234,631
1,208,360	5,344,110	7,534,460	124,341	7,658,801
1,443,153	-	1,805,998	1,321,252	3,127,250
-	-	1,656,935	1,097,786	2,754,721
(495,310)	1,277,709	697,061	-	697,061
\$ 947,843	\$ 1,277,709	\$ 4,159,994	\$ 2,419,038	\$ 6,579,032

CITY OF KALAMAZOO, MICHIGAN
Combining Statement of Revenue, Expenses
and Changes in Fund Net Assets
Internal Service Funds
For the Year Ended December 31, 2005

	Governmental Activities			
	Engineering	Printing Services	City-Wide Maintenance	Management Information Systems
Operating revenue				
Charges for services	\$ 1,608,515	\$ 187,521	\$ 1,223,279	\$ 2,429,554
Operating expenses				
Operation and maintenance	1,676,698	175,126	1,216,633	2,004,028
Risk management	-	-	-	-
Depreciation	-	323	-	150,838
Total operating expenses	1,676,698	175,449	1,216,633	2,154,866
Operating income (loss)	(68,183)	12,072	6,646	274,688
Non-operating revenue				
Interest income	-	-	-	36,832
Gain (loss) on disposal of capital assets	-	-	-	-
Total non-operating revenue	-	-	-	36,832
Net income (loss) before transfers	(68,183)	12,072	6,646	311,520
Transfers				
Transfers out	-	-	-	-
Net income (loss)	(68,183)	12,072	6,646	311,520
Net assets (deficit), beginning of year	7,625	(43,679)	181	1,708,260
Net assets (deficit), end of year	\$ (60,558)	\$ (31,607)	\$ 6,827	\$ 2,019,780

			Business-type Activities	
Public Works Equipment	Insurance and Benefits	Subtotal Governmental Activities	Public Utilities Equipment	Total
\$ 2,061,386	\$ 16,576,921	\$ 24,087,176	\$ 1,167,234	\$ 25,254,410
1,762,463	-	6,834,948	821,830	7,656,778
-	16,448,454	16,448,454	-	16,448,454
420,597	-	571,758	376,564	948,322
2,183,060	16,448,454	23,855,160	1,198,394	25,053,554
(121,674)	128,467	232,016	(31,160)	200,856
-	113,420	150,252	15,729	165,981
(171,707)	-	(171,707)	5,420	(166,287)
(171,707)	113,420	(21,455)	21,149	(306)
(293,381)	241,887	210,561	(10,011)	200,550
(102,036)	(730,390)	(832,426)	-	(832,426)
(395,417)	(488,503)	(621,865)	(10,011)	(631,876)
1,343,260	1,766,212	4,781,859	2,429,049	7,210,908
\$ 947,843	\$ 1,277,709	\$ 4,159,994	\$ 2,419,038	\$ 6,579,032

CITY OF KALAMAZOO, MICHIGAN
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended December 31, 2005

	Governmental Activities			
	Engineering	Printing Services	City-Wide Maintenance	Management Information Systems
Cash flows from operating activities				
Cash received from providing interfund services	\$ 1,623,005	\$ 175,708	\$ 1,224,984	\$ 1,640,631
Cash payments to suppliers for goods and services	(750,189)	(137,013)	(738,617)	(1,420,971)
Cash payments to employees for services	(902,821)	(38,517)	(476,018)	(515,817)
Net cash provided by (used in) operating activities	(30,005)	178	10,349	(296,157)
Cash flows from non-capital financing activities				
Transfers out	-	-	-	-
Cash flows from capital and related financing activities				
Purchases of capital assets	-	-	-	(301,124)
Sale of capital assets	-	-	-	-
Net cash used in capital and related financing activities	-	-	-	(301,124)
Cash flows from investing activities				
Interest received	-	-	-	36,832
Net increase (decrease) in cash and cash equivalents	(30,005)	178	10,349	(560,449)
Cash and cash equivalents, beginning of year	53,002	1,775	17,575	1,548,891
Cash and cash equivalents, end of year	<u>\$ 22,997</u>	<u>\$ 1,953</u>	<u>\$ 27,924</u>	<u>\$ 988,442</u>
Statement of net assets classification of cash and cash equivalents				
Cash and cash equivalents	\$ 22,997	\$ 1,953	\$ 27,924	\$ 988,442
Restricted cash	-	-	-	-
Total cash and cash equivalents	<u>\$ 22,997</u>	<u>\$ 1,953</u>	<u>\$ 27,924</u>	<u>\$ 988,442</u>

			Business-type Activities	
Public Works Equipment	Insurance and Benefits	Subtotal Governmental Activities	Public Utilities Equipment	Total
\$ 1,850,298	\$ 21,943,917	\$ 28,458,543	\$ 1,206,853	\$ 29,665,396
(770,368)	(16,982,987)	(20,800,145)	(658,759)	(21,458,904)
(782,518)	-	(2,715,691)	(185,049)	(2,900,740)
297,412	4,960,930	4,942,707	363,045	5,305,752
(102,036)	(730,390)	(832,426)	-	(832,426)
(362,124)	-	(663,248)	(353,325)	(1,016,573)
145,644	-	145,644	8,849	154,493
(216,480)	-	(517,604)	(344,476)	(862,080)
-	113,420	150,252	15,729	165,981
(21,104)	4,343,960	3,742,929	34,298	3,777,227
23,390	1,135,438	2,780,071	1,010,628	3,790,699
\$ 2,286	\$ 5,479,398	\$ 6,523,000	\$ 1,044,926	\$ 7,567,926
\$ 2,286	\$ 5,479,398	\$ 6,523,000	\$ 220,299	\$ 6,743,299
-	-	-	824,627	824,627
\$ 2,286	\$ 5,479,398	\$ 6,523,000	\$ 1,044,926	\$ 7,567,926

(Continued...)

CITY OF KALAMAZOO, MICHIGAN
Combining Statement of Cash Flows
Internal Service Funds (Concluded)
For the Year Ended December 31, 2005

	Governmental Activities			
	Engineering	Printing Services	City-Wide Maintenance	Management Information Systems
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ (68,183)	\$ 12,072	\$ 6,646	\$ 274,688
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation	-	323	-	150,838
Changes in assets and liabilities:				
Receivables	(7,646)	-	(1,030)	1,197
Due from other funds	22,136	(10,643)	2,735	(784,245)
Due from component units	-	(1,170)	-	(5,875)
Inventories	-	9,603	-	-
Prepaid items and other assets	53	-	-	-
Accounts payable	5,574	(80,417)	(17,509)	49,081
Accrued and other liabilities	2,130	(1,620)	(233)	(2,010)
Due to other funds	15,931	74,025	19,740	11,075
Due to component units	-	24	-	-
Advance from other funds	-	-	-	-
Compensated absences payable	-	(2,019)	-	9,094
Employee death benefits payable	-	-	-	-
Uninsured claim liability	-	-	-	-
Net cash provided by (used in) operating activities	\$ (30,005)	\$ 178	\$ 10,349	\$ (296,157)

			Business-type Activities		
Public Works Equipment	Insurance and Benefits	Sub-total Governmental Activities	Public Utilities Equipment	Total	
\$ (121,674)	\$ 128,467	\$ 232,016	\$ (31,160)	\$ 200,856	
420,597	-	571,758	376,564	948,322	
2,698	(12,826)	(17,607)	-	(17,607)	
(203,361)	5,436,253	4,462,875	38,660	4,501,535	
(10,425)	(56,431)	(73,901)	959	(72,942)	
8,816	-	18,419	(7,948)	10,471	
-	-	53	-	53	
(650,350)	143,202	(550,419)	(36,123)	(586,542)	
3,299	255,013	256,579	(1,671)	254,908	
842,307	(877,701)	85,377	23,144	108,521	
-	(134,276)	(134,252)	-	(134,252)	
-	340,000	340,000	-	340,000	
5,505	-	12,580	620	13,200	
-	(538)	(538)	-	(538)	
-	(260,233)	(260,233)	-	(260,233)	
<u>\$ 297,412</u>	<u>\$ 4,960,930</u>	<u>\$ 4,942,707</u>	<u>\$ 363,045</u>	<u>\$ 5,305,752</u>	

AGENCY FUND

Tax Collector's Fund - This fund is used to account for tax collections which are held by the City in an agency capacity. The collections are then transferred to the City General Fund and to other governmental units on a timely distribution basis.

CITY OF KALAMAZOO, MICHIGAN
Statement of Changes in Assets and Liabilities
Agency Fund
For the Year Ended December 31, 2005

	Balance December 31, 2004	Additions	Deletions	Balance December 31, 2005
<u>TAX COLLECTOR'S</u>				
Assets				
Cash and cash equivalents	\$ 1,557,088	\$ 87,128,339	\$ 83,814,466	\$ 4,870,961
Taxes receivable	35,975,419	174,929,025	170,039,740	40,864,704
Other receivables	3,491,170	140,568	3,612,136	19,602
	<hr/>			
Total assets	\$ 41,023,677	\$ 262,197,932	\$ 257,466,342	\$ 45,755,267
	<hr/>			
Liabilities				
Accounts payable	\$ 2,126,546	\$ 41,597,858	\$ 37,855,344	\$ 1,615,968
Due to other governments	38,897,131	220,600,074	219,610,998	44,139,299
	<hr/>			
Total liabilities	\$ 41,023,677	\$ 262,197,932	\$ 257,466,342	\$ 45,755,267
	<hr/>			

CITY OF KALAMAZOO, MICHIGAN
Statement of Net Assets / Governmental Fund Balance Sheet
Downtown Development Authority Component Unit
December 31, 2005

	General Fund	Adjustments	Statement of Net Assets
Assets			
Cash and cash equivalents	\$ 189,475	\$ -	\$ 189,475
Receivables, net:			
Taxes	2,827,830	-	2,827,830
Other	617,678	168,328	786,006
Due from primary government	21,177	-	21,177
Prepays	87,321	-	87,321
Restricted cash	1,796,143	-	1,796,143
Capital assets, net	-	391,002	391,002
	<hr/>	<hr/>	<hr/>
Total assets	\$ 5,539,624	559,330	6,098,954
	<hr/>	<hr/>	<hr/>
Liabilities			
Accounts payable	\$ 466,867	-	466,867
Accrued liabilities	-	42,988	42,988
Due to primary government	-	5,970,000	5,970,000
Deferred/unearned revenue	114,337	-	114,337
Long-term liabilities:			
Due within one year	-	440,635	440,635
Due in more than one year	-	450,586	450,586
	<hr/>	<hr/>	<hr/>
Total liabilities	581,204	6,904,209	7,485,413
	<hr/>	<hr/>	<hr/>
Fund balance / net assets			
Fund balance:			
Reserved for prepaids	87,321	(87,321)	-
Unreserved, undesignated	4,871,099	(4,871,099)	-
	<hr/>	<hr/>	<hr/>
Total fund balance	4,958,420	(4,958,420)	-
	<hr/>	<hr/>	<hr/>
Total liabilities and fund balance	\$ 5,539,624		
	<hr/>		
Net assets:			
Invested in capital assets, net of related debt		378,086	378,086
Unrestricted (deficit)		(1,764,545)	(1,764,545)
		<hr/>	<hr/>
Total net assets (deficit)		\$ (1,386,459)	\$ (1,386,459)
		<hr/>	<hr/>

CITY OF KALAMAZOO, MICHIGAN
Reconciliation of Fund Balance of the
Governmental Fund to Net Assets
Downtown Development Authority Component Unit
December 31, 2005

Fund balance - governmental fund	\$ 4,958,420
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Amounts reported in the statement of net assets are different because:

Capital assets are not financial resources, and therefore not reported in the governmental fund.

Add: capital assets, net	896,331
Subtract: accumulated depreciation	(505,329)

Because the focus of the governmental fund is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental fund, and thus are not included in fund balance.

Add: deferred property taxes	168,328
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Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the governmental fund.

Subtract: long-term debt payable	(891,221)
Subtract: accrued interest on long-term debt	(42,988)
Subtract: long-term due to primary government	<u>(5,970,000)</u>

Net assets (deficit)	<u><u>\$ (1,386,459)</u></u>
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CITY OF KALAMAZOO, MICHIGAN
Statement of Activities / Governmental Fund Revenue,
Expenditures, and Changes in Fund Balance
Downtown Development Authority Component Unit
For the Year Ended December 31, 2005

	General Fund	Adjustments	Statement of Activities
Expenditures / expenses	\$ 7,109,016	\$ (550,582)	\$ 6,558,434
Program revenues			
Charges for services	2,358,655	-	2,358,655
Operating grants, contributions, and restricted interest	353,236	-	353,236
Capital grants and contributions	1,089,547	-	1,089,547
Total program revenues	3,801,438	-	3,801,438
Net program (expense) revenue	(3,307,578)	550,582	(2,756,996)
General revenues			
Property taxes	3,453,889	87,827	3,541,716
Bond proceeds	8,055	(8,055)	-
Total general revenues	3,461,944	79,772	3,541,716
Change in fund balance / net assets	154,366	630,354	784,720
Fund balances / net assets (deficit):			
Beginning of year	4,804,054	(6,975,233)	(2,171,179)
End of year	\$ 4,958,420	\$ (6,344,879)	\$ (1,386,459)

CITY OF KALAMAZOO, MICHIGAN
Reconciliation of Governmental Fund Revenue, Expenditures
and Changes in Fund Balances to Changes in Net Assets
Downtown Development Authority Component Unit
For the Year Ended December 31, 2005

Net change in fund balance - governmental fund	\$	154,366
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Amounts reported in the statement of activities are different because:

The governmental fund reports capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay		46,437
Subtract: depreciation expense		(80,622)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental fund, but rather are deferred to the following fiscal year.

Add: net change in property tax revenues		87,827
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Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net assets.

Add: principal payments on long-term liabilities		584,559
Subtract: bond proceeds received		(8,055)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental fund.

Subtract: change in accrued interest		208
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Change in net assets	\$	784,720
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CITY OF KALAMAZOO, MICHIGAN
Statement of Net Assets / Governmental Fund Balance Sheet
Economic Development Corporation Component Unit
December 31, 2005

	General Fund	Adjustments	Statement of Net Assets
Assets			
Cash and cash equivalents	\$ 112,206	\$ -	\$ 112,206
Notes receivable	1,316,071	-	1,316,071
Due from primary government	71,314	-	71,314
	<hr/>		<hr/>
Total assets	\$ 1,499,591	-	1,499,591
	<hr/>		
Liabilities			
Accrued liabilities	\$ 2,337	-	2,337
Due to primary government	117,118	-	117,118
Advance from primary government	1,216,071	-	1,216,071
Deferred revenue	100,000	(100,000)	-
	<hr/>		<hr/>
Total liabilities	1,435,526	(100,000)	1,335,526
Fund balance / net assets			
Fund balance:			
Unreserved, undesignated	64,065	(64,065)	-
	<hr/>		<hr/>
Total liabilities and fund balance	\$ 1,499,591	(164,065)	1,335,526
	<hr/>		
Net assets			
Unrestricted		\$ 164,065	\$ 164,065
		<hr/>	<hr/>

CITY OF KALAMAZOO, MICHIGAN
Reconciliation of Fund Balance of the
Governmental Fund to Net Assets
Economic Development Corporation Component Unit
December 31, 2005

Fund balance - governmental fund	\$ 64,065
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Amounts reported in the statement of net assets are different because:

Because the focus of the governmental fund is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental fund, and thus are not included in fund balance.

Add: deferred notes receivable	<u>100,000</u>
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Net assets	<u><u>\$ 164,065</u></u>
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CITY OF KALAMAZOO, MICHIGAN
Statement of Activities / Governmental Fund Revenue,
Expenditures, and Changes in Fund Balance
Economic Development Corporation Component Unit
For the Year Ended December 31, 2005

	General Fund	Adjustments	Statement of Activities
Expenditures / expenses	\$ 234,110	\$ (25,000)	\$ 209,110
Program revenues			
Operating grants, contributions, and restricted interest	73,603	-	73,603
Change in fund balance / net assets	(160,507)	25,000	(135,507)
Fund balances / net assets:			
Beginning of year	224,572	75,000	299,572
End of year	<u>\$ 64,065</u>	<u>\$ 100,000</u>	<u>\$ 164,065</u>

CITY OF KALAMAZOO, MICHIGAN
Reconciliation of Governmental Fund Revenue, Expenditures
and Changes in Fund Balances to Changes in Net Assets
Economic Development Corporation Component Unit
For the Year Ended December 31, 2005

Net change in fund balance - governmental fund	\$ (160,507)
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Amounts reported in the statement of activities are different because:

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental fund, but rather are deferred to the following fiscal year.

Add: net change in notes receivable	<u>25,000</u>
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Change in net assets	<u><u>\$ (135,507)</u></u>
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CITY OF KALAMAZOO, MICHIGAN
Statement of Net Assets / Governmental Fund Balance Sheet
Brownfield Redevelopment Authority Component Unit
December 31, 2005

	General Fund	Adjustments	Statement of Net Assets
Assets			
Cash and cash equivalents	\$ 1,395,440	\$ -	\$ 1,395,440
Receivables, net:			
Notes	770,850	-	770,850
Due from other governments	271,519	-	271,519
Due from primary government	-	2,743	2,743
Other	97,068	-	97,068
	<hr/>		<hr/>
Total assets	\$ 2,534,877	2,743	2,537,620
	<hr/>		<hr/>
Liabilities			
Account payable	\$ 75,480	-	75,480
Accrued liabilities	5,715	-	5,715
Due to primary government	39	-	39
Advance from primary government	770,850	-	770,850
Deferred/unearned revenue	270,646	(12,163)	258,483
	<hr/>		<hr/>
Total liabilities	1,122,730	(12,163)	1,110,567
	<hr/>		<hr/>
Fund balance / net assets			
Fund balance:			
Unreserved, undesignated	1,412,147	(1,412,147)	-
	<hr/>		<hr/>
Total fund balance	1,412,147	(1,412,147)	-
	<hr/>		<hr/>
Total liabilities and fund balance	\$ 2,534,877		
	<hr/>		
Net assets			
Unrestricted		\$ 1,427,053	\$ 1,427,053
		<hr/>	<hr/>

CITY OF KALAMAZOO, MICHIGAN
Reconciliation of Fund Balance of the
Governmental Fund to Net Assets
Brownfield Redevelopment Authority Component Unit
December 31, 2005

Fund balance - governmental fund	\$ 1,412,147
----------------------------------	--------------

Amounts reported in the statement of net assets are different because:

Because the focus of the governmental fund is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental fund, and thus are not included in fund balance.

Add: deferred notes receivable	12,163
--------------------------------	--------

Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. A portion of the net revenue (expense) of certain internal service funds is allocated to the Authority and reported in the statement of activities.

Add: net operating gain from component unit activities accounted for in governmental internal service funds	<u>2,743</u>
---	--------------

Net assets	<u><u>\$ 1,427,053</u></u>
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CITY OF KALAMAZOO, MICHIGAN
Statement of Activities / Governmental Fund Revenue,
Expenditures, and Changes in Fund Balance
Brownfield Redevelopment Authority Component Unit
For the Year Ended December 31, 2005

	General Fund	Adjustments	Statement of Activities
Expenditures / expenses	\$ 1,432,630	\$ (117)	\$ 1,432,513
Program revenues			
Operating grants, contributions, and restricted interest	1,199,001	-	1,199,001
Net (expense) revenue	(233,629)	117	(233,512)
General revenues			
Property taxes	232,804	(14,839)	217,965
Proceeds / gain from the sale of capital assets	31,505	-	31,505
Total general revenues	264,309	(14,839)	249,470
Change in net assets	30,680	(14,722)	15,958
Fund balances / net assets:			
Beginning of year	1,381,467	29,628	1,411,095
End of year	\$ 1,412,147	\$ 14,906	\$ 1,427,053

CITY OF KALAMAZOO, MICHIGAN
Reconciliation of Governmental Fund Revenue, Expenditures
and Changes in Fund Balance to Changes in Net Assets
Brownfield Redevelopment Authority Component Unit
For the Year Ended December 31, 2005

Net change in fund balance - governmental fund	\$	30,680
--	----	--------

Amounts reported in the statement of activities are different because:

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental fund, but rather are deferred to the following fiscal year.

Add: net change in notes receivable		(14,839)
-------------------------------------	--	----------

Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. A portion of the net revenue (expense) of certain internal service funds is allocated to the Authority and reported in the statement of activities.

Add: net operating gain from component unit activities accounted for in governmental internal service funds		117
---	--	-----

Change in net assets	\$	15,958
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CITY OF KALAMAZOO, MICHIGAN
Statement of Net Assets / Governmental Fund Balance Sheet
Local Development Finance Authority Component Unit
December 31, 2005

	General Fund	Adjustments	Statement of Net Assets
Assets			
Cash and cash equivalents	\$ 140,586	\$ -	\$ 140,586
Taxes receivable	111,290	-	111,290
Due from primary government	-	133	133
	<hr/>		<hr/>
Total assets	\$ 251,876	133	252,009
	<hr/>		
Liabilities			
Due to primary government	\$ 71,314	\$ -	\$ 71,314
Advance from primary government	1,943,049	-	1,943,049
Deferred revenue	8,167	(8,167)	-
	<hr/>		<hr/>
Total liabilities	2,022,530	(8,167)	2,014,363
Fund balance / net assets			
Fund balance:			
Unreserved, undesignated	(1,770,654)	1,770,654	-
	<hr/>		<hr/>
Total liabilities and fund balance	\$ 251,876		
	<hr/>		
Net assets			
Unrestricted (deficit)		\$ (1,762,354)	\$ (1,762,354)
		<hr/>	<hr/>

CITY OF KALAMAZOO, MICHIGAN
Reconciliation of Fund Balance of the
Governmental Fund to Net Assets
Local Development Finance Authority Component Unit
December 31, 2005

Fund balance - governmental fund	\$ (1,770,654)
----------------------------------	----------------

Amounts reported in the statement of net assets are different because:

Because the focus of the governmental fund is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental fund, and thus are not included in fund balance.

Add: deferred notes receivable	8,167
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Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. A portion of the net assets of certain internal service funds are allocated to the Authority and included in the statement of net assets.

Add: net assets allocated to the Authority from governmental activity internal service funds	<u>133</u>
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Net assets (deficit)	<u><u>\$ (1,762,354)</u></u>
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CITY OF KALAMAZOO, MICHIGAN
Statement of Activities / Governmental Fund Revenue,
Expenditures, and Changes in Fund Balance
Local Development Finance Authority Component Unit
For the Year Ended December 31, 2005

	General Fund	Adjustments	Statement of Activities
Expenditures / expenses	\$ 207,647	\$ 756	\$ 208,403
General revenues			
Property taxes	311,455	6,947	318,402
Change in net assets	103,808	6,191	109,999
Fund balances / net assets:			
Beginning of year	(1,874,462)	2,109	(1,872,353)
End of year	<u>\$ (1,770,654)</u>	<u>\$ 8,300</u>	<u>\$ (1,762,354)</u>

CITY OF KALAMAZOO, MICHIGAN
Reconciliation of Governmental Fund Revenue, Expenditures
and Changes in Fund Balance to Changes in Net Assets
Local Development Finance Authority Component Unit
For the Year Ended December 31, 2005

Net change in fund balance - governmental fund	\$ 103,808
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Amounts reported in the statement of activities are different because:

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental fund, but rather are deferred to the following fiscal year.

Add: net change in deferred property taxes	6,947
--	-------

Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. A portion of the net revenue (expense) of certain internal service funds is allocated to the Authority and reported in the statement of activities.

Subtract: net operating loss from component unit activities accounted for in governmental internal service funds	<u>(756)</u>
--	--------------

Change in net assets	<u><u>\$ 109,999</u></u>
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CITY OF KALAMAZOO, MICHIGAN
Statement of Net Assets
Metro Transit System Component Unit
December 31, 2005

	Enterprise Fund	Adjustments	Statement of Net Assets
Assets			
Current assets:			
Cash and cash equivalents	\$ 1,998,344	\$ -	\$ 1,998,344
Receivables, net	2,108,366	-	2,108,366
Due from primary government	-	382,721	382,721
Other assets	329,228	-	329,228
Total current assets	4,435,938	382,721	4,818,659
Non-current assets:			
Restricted investments	1,151,263	-	1,151,263
Capital assets, net	17,222,522	-	17,222,522
Total non-current assets	18,373,785	-	18,373,785
Total assets	22,809,723	382,721	23,192,444
Liabilities			
Current liabilities:			
Account payable and accrued liabilities	2,045,830	-	2,045,830
Due to other governments	84,335	-	84,335
Deferred revenue	469,652	-	469,652
Current portion of long-term debt	24,318	-	24,318
Total current liabilities	2,624,135	-	2,624,135
Long-term liabilities:			
Due in more than one year	127,398	-	127,398
Total liabilities	2,751,533	-	2,751,533
Net assets			
Invested in capital assets	17,222,522	-	17,222,522
Unrestricted	2,835,668	382,721	3,218,389
Total net assets	\$ 20,058,190	\$ 382,721	\$ 20,440,911

CITY OF KALAMAZOO, MICHIGAN
Reconciliation of Fund Net Assets of the
Enterprise Fund to Net Assets
Metro Transit System Component Unit
December 31, 2005

Fund net assets	\$ 20,058,190
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Amounts reported in the statement of net assets are different because:

Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. A portion of the net revenue (expense) of certain internal service funds is allocated to the System and reported in the statement of activities.

Add: net operating gain from component unit activities accounted for in governmental internal service funds	<u>382,721</u>
---	----------------

Net assets	<u><u>\$ 20,440,911</u></u>
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CITY OF KALAMAZOO, MICHIGAN
Statement of Activities and Enterprise Fund Revenue,
Expenses, and Changes in Fund Net Assets
Metro Transit System Component Unit
For the Year Ended December 31, 2005

	Enterprise Fund	Adjustments	Statement of Activities
Expenses	\$ 12,555,499	\$ (27,314)	\$ 12,528,185
Program revenues			
Charges for services	1,826,225	-	1,826,225
Operating grants, contributions, and restricted interest	8,002,658	-	8,002,658
Capital grants and contributions	9,262,578	-	9,262,578
Total program revenues	19,091,461	-	19,091,461
Net revenue	6,535,962	27,314	6,563,276
General revenues			
Property taxes	1,500,275	-	1,500,275
Gain on sale of capital assets	(84,180)	-	(84,180)
Total general revenues	1,416,095	-	1,416,095
Change in net assets	7,952,057	27,314	7,979,371
Net assets, beginning of year	12,106,133	355,407	12,461,540
Net assets, end of year	<u>\$ 20,058,190</u>	<u>\$ 382,721</u>	<u>\$ 20,440,911</u>

CITY OF KALAMAZOO, MICHIGAN
Reconciliation of Enterprise Fund Revenue, Expenses
and Changes in Fund Net Assets to the Statement of Activities
Metro Transit System Component Unit
For the Year Ended December 31, 2005

Change in net assets - enterprise fund	\$	7,952,057
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Amounts reported in the statement of activities are different because:

Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. A portion of the net revenue (expense) of certain internal service funds is allocated to the System and reported in the statement of activities.

Add: net operating gain from component unit activities accounted for in governmental internal service funds		27,314
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Change in net assets	\$	7,979,371
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CITY OF KALAMAZOO, MICHIGAN
Statement of Net Assets
Kalamazoo Municipal Golf Association Component Unit
December 31, 2005

	Enterprise Fund	Adjustments	Statement of Net Assets
Assets			
Current assets:			
Cash and cash equivalents	\$ 153,113	\$ -	\$ 153,113
Prepays	14,083	-	14,083
Total current assets	<u>167,196</u>	-	<u>167,196</u>
Non-current assets:			
Deferred bond costs	36,488	-	36,488
Capital assets, net	1,621,758	-	1,621,758
Total non-current assets	<u>1,658,246</u>	-	<u>1,658,246</u>
Total assets	<u>1,825,442</u>	-	<u>1,825,442</u>
Liabilities			
Current liabilities:			
Account payable and accrued liabilities	27,332	-	27,332
Due to primary government	1,592,907	-	1,592,907
Unearned revenue	159,618	-	159,618
Current portion of long-term debt	<u>3,631</u>	-	<u>3,631</u>
Total liabilities	<u>1,783,488</u>	-	<u>1,783,488</u>
Net assets			
Invested in capital assets, net of related debt	25,220	-	25,220
Unrestricted	<u>16,734</u>	-	<u>16,734</u>
Total net assets	<u>\$ 41,954</u>	<u>\$ -</u>	<u>\$ 41,954</u>

CITY OF KALAMAZOO, MICHIGAN
Statement of Activities
Kalamazoo Municipal Golf Association Component Unit
For the Year Ended December 31, 2005

	Enterprise Fund	Adjustments	Statement of Activities
Expenses	\$ 1,579,851	\$ -	\$ 1,579,851
Program revenues			
Charges for services	1,386,071	-	1,386,071
Operating grants, contributions, and restricted interest	1,262	-	1,262
Total program revenues	1,387,333	-	1,387,333
Net expense	(192,518)	-	(192,518)
General revenues			
Gain on sale of capital assets	9,181	-	9,181
Change in net assets	(183,337)	-	(183,337)
Net assets, beginning of year	225,291	-	225,291
Net assets, end of year	\$ 41,954	\$ -	\$ 41,954

CITY OF KALAMAZOO, MICHIGAN

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CITY OF KALAMAZOO, MICHIGAN
GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION (A)
LAST TEN FISCAL YEARS

Fiscal Year	General Government	Public Safety	Public Services	Development Services	(B) District Court	Capital Outlay	(C) Debt Service	Other	Total Expenditures
1996	5,514,304	23,255,486	10,650,871	4,585,128	2,046,843	6,542,132	1,222,599	503,608	54,320,971
1997	5,495,118	24,644,329	11,559,149	5,039,284	2,138,563	3,144,939	1,530,673	922,480	54,474,535
1998	5,690,572	24,724,484	11,098,218	3,798,725	2,244,301	4,175,792	151,379	667,496	52,550,967
1999	6,179,274	25,342,917	8,775,659	7,104,583	-	4,618,759	161,113	1,214,078	53,396,383
2000	6,390,530	26,685,740	8,978,681	7,073,702	-	5,058,975	205,993	1,165,255	55,558,876
2001	7,044,824	27,808,153	9,095,480	7,264,516	-	3,502,548	182,330	1,276,065	56,173,916
2002	6,562,518	29,570,677	7,331,755	8,392,856	-	3,218,030	106,789	2,966,663	58,149,288
2003	6,584,601	30,164,961	6,929,901	8,929,614	-	2,244,148	88,575	2,615,574	57,557,374
2004	6,582,845	31,422,767	7,475,792	11,739,865	-	3,367,124	89,957	2,707,311	63,385,661
2005	6,200,785	30,677,808	7,608,834	9,923,243	-	5,419,421	133,074	2,837,441	62,800,606

Fiscal Year	Percent of Total Expenditures								(Decrease) Over Prior Year
1996	10.2%	42.8%	19.6%	8.4%	3.8%	12.0%	2.3%	0.9%	10.5%
1997	10.1%	45.2%	21.2%	9.3%	3.9%	5.8%	2.8%	1.7%	0.3%
1998	10.9%	47.0%	21.1%	7.2%	4.3%	7.9%	0.3%	1.3%	-3.5%
1999	11.6%	47.5%	16.4%	13.3%	0.0%	8.6%	0.3%	2.3%	1.6%
2000	11.5%	48.0%	16.2%	12.7%	0.0%	9.1%	0.4%	2.1%	4.0%
2001	12.6%	49.5%	16.2%	12.9%	0.0%	6.2%	0.3%	2.3%	1.1%
2002	11.3%	50.9%	12.6%	14.4%	0.0%	5.5%	0.2%	5.1%	3.5%
2003	11.5%	52.4%	12.0%	15.5%	0.0%	3.9%	0.2%	4.5%	-1.0%
2004	10.4%	49.6%	11.8%	18.5%	0.0%	5.3%	0.1%	4.3%	10.1%
2005	10.0%	48.8%	12.1%	15.8%	0.0%	8.6%	0.2%	4.5%	-0.9%

(A) Includes general and special revenue funds as presented on the budgetary basis of accounting; interfund transfers are not included.

Prior to 1997, expenditures related to the Arcadia Creek capital project were included in the Downtown Development Special Revenue Fund. In 1997, this fund was changed to a capital projects fund and, accordingly, excluded from this schedule.

(B) In 1999, District Court operations were transferred to Kalamazoo County.

(C) The years 1996 through 1997 include debt service on Michigan Transportation Fund (MTF) bonds. Beginning in 1998, MTF debt service is handled through an operating transfer and, accordingly, excluded from this schedule.

CITY OF KALAMAZOO, MICHIGAN
GENERAL GOVERNMENTAL REVENUES BY SOURCE (A)
LAST TEN FISCAL YEARS

Fiscal Year	Taxes	Licenses and Permits	Inter-governmental	Charges for Services	(B) Fines and Forfeitures	Interest and Rent	Other	Totals
1996	24,141,435	1,049,903	20,698,497	1,162,969	2,073,905	1,389,574	3,149,644	53,665,927
1997	25,294,227	699,289	21,268,187	1,215,090	2,253,408	1,316,969	4,268,952	56,316,122
1998	26,124,804	811,061	22,074,088	1,066,513	2,421,031	1,417,280	3,263,995	57,178,772
1999	27,018,531	920,802	21,248,010	1,088,308	246,545	1,293,306	3,589,063	55,404,565
2000	27,551,448	1,086,054	23,235,368	1,087,283	236,143	1,497,900	3,349,198	58,043,394
2001	28,624,144	1,226,681	22,764,398	1,201,106	430,846	994,911	3,511,314	58,753,400
2002	29,877,354	1,479,478	23,094,196	1,179,448	253,224	806,908	3,779,537	60,470,145
2003	30,868,032	1,797,319	20,908,408	981,650	220,918	563,526	4,641,196	59,981,049
2004	31,620,372	1,972,128	22,246,771	1,487,928	313,457	749,871	4,627,851	63,018,378
2005	32,818,224	2,187,748	21,726,049	1,335,151	412,643	1,123,856	5,297,670	64,901,341

Fiscal Year	Percent of Total Revenues							% Increase (Decrease) Over Prior Year
1996	44.8%	2.0%	38.6%	2.2%	3.9%	2.6%	5.9%	5.8%
1997	44.9%	1.2%	37.8%	2.2%	4.0%	2.3%	7.6%	4.9%
1998	45.7%	1.4%	38.6%	1.9%	4.2%	2.5%	5.7%	1.5%
1999	48.7%	1.7%	38.4%	2.0%	0.4%	2.3%	6.5%	-3.1%
2000	47.4%	1.9%	40.0%	1.9%	0.4%	2.6%	5.8%	4.8%
2001	48.8%	2.1%	38.7%	2.0%	0.7%	1.7%	6.0%	1.2%
2002	49.4%	2.4%	38.2%	2.0%	0.4%	1.3%	6.3%	2.9%
2003	51.5%	3.0%	34.9%	1.6%	0.4%	0.9%	7.7%	-0.8%
2004	50.2%	3.1%	35.3%	2.4%	0.5%	1.2%	7.3%	5.1%
2005	50.5%	3.4%	33.5%	2.1%	0.6%	1.7%	8.2%	3.0%

(A) Includes General and Special Revenue Funds as presented on the budgetary basis of accounting. Bond proceeds, note proceeds and interfund transfers are not recognized.

Beginning in 1997, tax collection fees are reported as Miscellaneous rather than Licenses, Permits and Fees.

Prior to 1997, bond proceeds for capital improvements related to the Arcadia Creek project were included in the Special Revenue Fund "Downtown Development". In 1997, this fund was changed to a Capital Projects Fund, and not included on this schedule.

(B) In 1999 District Court operations were transferred to the County of Kalamazoo. From 1999, this column represents miscellaneous City fines and drug forfeiture revenue.

CITY OF KALAMAZOO, MICHIGAN
PROPERTY TAX LEVIES AND COLLECTIONS
GENERAL PROPERTY TAX

LAST TEN FISCAL YEARS

Year	(A) Total Adjusted Tax Levy	Collection of Current Year's Taxes During Year Levied	Percent of Levy Collected During Year Levied	(B) Collection Subsequent to the Year of Tax Levy	Total Collections	Percent of Total Collections to Tax Levy	(C) Uncollected Taxes	Percent of Uncollected Taxes to Tax Levy
1996	22,054,023	19,577,440	88.77%	2,469,386	22,046,826	99.97%	7,197	0.03%
1997	23,487,443	20,357,523	86.67%	3,095,730	23,453,253	99.85%	34,191	0.15%
1998	24,039,638	20,944,734	87.13%	3,064,000	24,008,734	99.87%	30,904	0.13%
1999	24,946,250	22,061,411	88.44%	2,838,097	24,899,508	99.81%	46,742	0.19%
2000	25,548,795	22,249,362	87.09%	3,116,455	25,365,817	99.28%	182,978	0.72%
2001	26,109,481	22,719,024	87.01%	3,169,703	25,888,727	99.15%	220,755	0.85%
2002	27,447,616	24,051,078	87.63%	3,040,826	27,091,904	98.70%	355,712	1.30%
2003	28,428,822	24,665,670	86.76%	3,109,818	27,775,488	97.70%	653,333	2.30%
2004	29,063,140	25,195,702	86.69%	3,275,296	28,470,998	97.96%	592,142	2.04%
2005	30,046,920	25,828,635	85.96%	-	25,828,635	85.96%	4,218,284	14.04%

(A) Reflects general operating levy only, whereas General Fund property tax revenues in the general purpose financial statements include the general levy, payments in lieu of taxes and special assessments. All total tax levies reflect adjustments for Tax Tribunal consent judgements, Board of Review decisions, real estate taxes cancelled through foreclosure and state scavenger sales, and personal property taxes cancelled by Circuit Court.

(B) Reflects collections through December 31, 2005

(C) Uncollected current year taxes at December 31, 2005 represent both delinquent taxes and unpaid monthly installments on the current levy.

CITY OF KALAMAZOO, MICHIGAN

TAXABLE VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY (A)

LAST TEN FISCAL YEARS

Year	Real		Personal		Industrial and Commercial Subject to Act 198	
	Assessed/ Taxable Value (B)	Estimated Actual Value	Assessed/ Taxable Value (B)	Estimated Actual Value	Assessed/ Taxable Value (B)	Estimated Actual Value
1996	885,228,452	1,770,456,904	193,060,300	386,120,600	64,523,400	240,130,800
1997	935,384,020	1,870,768,040	233,108,300	466,216,600	48,893,850	187,226,400
1998	975,989,650	1,951,979,300	227,662,700	455,325,400	46,185,125	178,574,100
1999	1,016,391,380	2,032,782,760	237,632,548	475,265,096	43,084,950	165,233,400
2000	1,034,261,518	2,379,780,256	229,137,050	458,320,700	32,650,000	126,779,800
2001	1,090,113,040	2,475,865,910	238,143,600	476,329,800	32,089,500	124,129,200
2002	1,175,434,380	2,687,356,660	238,009,950	476,030,100	15,096,550	56,133,600
2003	1,213,441,494	2,843,897,560	244,276,534	488,613,068	35,442,050	71,700,100
2004	1,274,216,408	3,031,577,100	219,353,550	440,012,900	36,821,197	74,593,600
2005	1,330,662,249	3,161,990,840	213,784,700	427,569,400	33,929,243	68,138,000

(A) Taxable values include adjustments to the final adopted assessment roll due to Tax Tribunal Judgments, Board of Review decisions and other adjustments affecting the assessment roll or the tax levy as of December 31, 2004. These values do not reflect adjustments for real estate taxes cancelled through foreclosure, or personal property taxes cancelled by the Circuit Court. These adjustments decreased the 2005 roll by \$3,415,695.

(B) All figures are based on taxable value. Assessed values are still calculated based on 50% of market value. However, Proposal A limits the increase of the taxable value to 5% or the C.P.I., whichever is lower.

Note: State statute requires all taxable property to be assessed at 50% of market value, except certain facilities which are granted exemption certificates under Act 198, Public Acts of Michigan. This Act was designed to provide a stimulus in the form of tax incentives to industrial and commercial enterprises to renovate and expand aging facilities and to build new facilities.

Table 4 - Unaudited

Totals		Ratio of Total Assessed to Total Estimated Actual Value	% Increase in Estimated Actual Value Over Prior Year
Assessed/ Taxable Value (B)	Estimated Actual Value		
1,142,812,152	2,396,708,304	47.7%	2.7%
1,217,386,170	2,524,211,040	48.2%	5.3%
1,249,837,475	2,585,878,800	48.3%	2.4%
1,297,108,878	2,673,281,256	48.5%	3.4%
1,296,048,568	2,964,880,756	43.7%	10.9%
1,360,346,140	3,076,324,910	44.2%	3.8%
1,428,540,880	3,219,520,360	44.4%	4.7%
1,493,160,078	3,404,210,728	43.9%	5.7%
1,530,391,155	3,546,183,600	43.2%	4.2%
1,578,376,192	3,657,698,240	43.2%	3.1%

CITY OF KALAMAZOO, MICHIGAN

PROPERTY TAX RATES

DIRECT AND OVERLAPPING GOVERNMENTS

<u>Governmental Unit</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<u>Homestead (1)</u>					
City of Kalamazoo	\$21.5667	\$21.9205	\$21.9205	\$22.1405	\$22.1405
County of Kalamazoo	6.1400	6.1362	6.1362	6.1362	6.1362
State of Michigan	6.0000	6.0000	5.0000	6.0000	6.0000
Kalamazoo Public Schools(2)	4.0800	4.2000	4.2000	4.2000	4.2000
Kalamazoo Valley Intermediate School District	3.0416	3.0416	3.0416	3.0416	4.5416
Kalamazoo Valley Community College	2.8151	2.8139	2.8139	2.8135	2.8135
Kalamazoo District Library	3.9583	3.9583	3.9583	3.9583	3.9583
Total (3)	<u>\$47.6017</u>	<u>\$48.0705</u>	<u>\$47.0705</u>	<u>\$48.2901</u>	<u>\$49.7901</u>
<u>Non-Homestead (1)</u>					
City of Kalamazoo	\$21.5667	\$21.9205	\$21.9205	\$22.1405	\$22.1405
County of Kalamazoo	6.1400	6.1362	6.1362	6.1362	6.1362
State of Michigan	6.0000	6.0000	5.0000	6.0000	6.0000
Kalamazoo Public Schools(2)	22.0800	22.2000	22.2000	22.2000	22.2000
Kalamazoo Valley Intermediate School District	3.0416	3.0416	3.0416	3.0416	4.5416
Kalamazoo Valley Community College	2.8151	2.8139	2.8139	2.8135	2.8135
Kalamazoo District Library	3.9583	3.9583	3.9583	3.9583	3.9583
Total (3)	<u>\$65.6017</u>	<u>\$66.0705</u>	<u>\$65.0705</u>	<u>\$66.2901</u>	<u>\$67.7901</u>

- (1) Homestead means a dwelling or unit in a multiple-unit dwelling subject to ad valorem property taxes that is owned and occupied as a principal residence by the owner of the dwelling or entity. Homestead includes all unoccupied property classified as agricultural adjacent and contiguous to the home of the owner that is not leased or rented by the owner to another person if the gross receipts of the agricultural or horticultural operations, if any, exceed the household income of the owner. If the gross receipts of the agricultural or horticultural operations do not exceed the household income of the owner, the homestead includes only 5 acres adjacent and contiguous to the home of the owner. Homestead includes a life care facility registered under the living care disclosure act, Act No. 440 of the Public Acts of 1976, being sections 554.801 to 554.844 of the Michigan Compiled Laws. Homestead also includes property owned by a cooperative housing corporation and occupied as a principal residence by tenant stockholders. Non-homestead is property not included in the above definition.
- (2) The Kalamazoo Public Schools is the largest school district within the City. Portions of other school districts overlap the City's boundaries. Of those which do, the millage rates for the fiscal year ended December 31, 2005 ranged from \$20.7000 to \$23.2000 for each \$1,000 of Taxable Value. The total tax rates for property owners in these other school districts would differ accordingly.
- (3) The City's Downtown Development Authority levies an additional \$1.9279 for each \$1,000 of Taxable Value within the City's Downtown Development District.

CITY OF KALAMAZOO, MICHIGAN

PRINCIPAL TAXPAYERS

DECEMBER 31, 2005

Taxpayer	Principal Product or	Taxable Value of Property (A)			(C) Percent of Total
		Ad Valorem	Abated (B)	Total	
Pfizer Corporation	Pharmaceuticals	\$ 121,345,964	\$ 5,957,600	\$ 127,303,564	8.05%
Graphic Packaging	Paper Products	31,263,192	309,300	31,572,492	2.00%
Consumer's Energy	Utility	25,708,115	-	25,708,115	1.63%
Greenleaf Holdings	Real Estate	20,414,847	-	20,414,847	1.29%
American Greetings	Paper Products	10,453,100	1,922,600	12,375,700	0.78%
James S. Smith Trust	Rental Properties	12,703,059	-	12,703,059	0.80%
Bronson Hospital	Health Care	10,591,962	-	10,591,962	0.67%
Lifecare (Friendship Village)	Retirement Community	9,526,178	-	9,526,178	0.60%
National City Bank	Banking	9,259,758	-	9,259,758	0.59%
TVO/Candlewyck Apartments	Apartment Complex	9,176,510	-	9,176,510	0.58%
		<u>\$ 260,442,685</u>	<u>\$ 8,189,500</u>	<u>\$ 268,632,185</u>	<u>16.98%</u>

(A) These values are the basis for the 2005 Assessment Roll and 2005 Tax Roll.

(B) Represents equivalent taxable value of property granted tax abatement under Acts 198.

(C) Based on the City's 2004 Total Taxable Valuation including Act 198 values totaling \$1,581,791,887.

CITY OF KALAMAZOO, MICHIGAN

SPECIAL ASSESSMENTS BILLINGS AND COLLECTIONS

LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Special Assessment Billings</u>	<u>Special Assessments Collected</u>
1996	\$ 24,671	\$ 45,837
1997	96,880	67,168
1998	42,218	78,127
1999	718,160	190,112
2000	270,940	132,014
2001	89,034	206,540
2002	41,200	151,997
2003	59,597	137,860
2004	44,810	109,455
2005	35,444	82,895

CITY OF KALAMAZOO, MICHIGAN
COMPUTATION OF LEGAL DEBT MARGIN
DECEMBER 31, 2005

State Equalized Value (adjusted) - December 31, 2004 (A)		\$ 1,829,046,520
Limitation per Section 5.2074 of the Home Rule Act of the State of Michigan		<u>10.0%</u>
Legal Limitation		<u>182,904,652</u>
Gross Direct Debt of the City (B)		82,141,009
Less debt not subject to limitation:		
Water System and Wastewater System Revenue Bonds	\$ 22,690,000	
Michigan Transportation Fund Bonds	11,395,000	
Special Assessment Bonds	<u>380,000</u>	<u>34,465,000</u>
Total Debt of the City Subject to Limitation		<u>47,676,009</u>
LEGAL DEBT MARGIN		<u><u>\$ 135,228,643</u></u>

(A) State equalized assessed value includes actual Industrial Facilities and Commercial Facilities Tax valuations under act 198.

(B) Per Table 11

CITY OF KALAMAZOO, MICHIGAN

**RATIO OF NET GENERAL OBLIGATION DEBT
TO STATE EQUALIZED VALUE AND
NET GENERAL OBLIGATION DEBT PER CAPITA**

LAST TEN FISCAL YEARS

Year	(A) Population (estimated)	(B) State Equalized Value (SEV) (adjusted)	(C) Total General Obligation Debt	(D) Amounts Payable from Enterprise Revenues and Other Sources	Net Bonded Debt	Ratio of Net Bonded Debt to SEV	Net Bonded Debt Per Capita
1996	80,277	1,142,812,152	33,849,000	29,182,750	4,666,250	0.41%	58.13
1997	80,277	1,217,386,170	33,412,580	28,168,950	5,243,630	0.43%	65.32
1998	80,277	1,249,837,475	33,591,000	28,811,624	4,779,376	0.38%	59.54
1999	80,277	1,297,108,878	40,577,772	31,575,000	9,002,772	0.69%	112.15
2000	77,145	1,296,048,568	40,232,378	31,042,683	9,189,695	0.71%	119.12
2001	77,145	1,360,346,140	41,215,955	30,101,100	11,114,855	0.82%	144.08
2002	77,145	1,428,540,880	38,949,595	25,685,008	13,264,587	0.93%	171.94
2003	77,145	1,493,160,078	47,016,084	34,093,884	12,922,200	0.87%	167.51
2004	77,145	1,530,391,155	54,635,085	32,488,797	22,146,288	1.45%	287.07
2005	77,145	1,578,376,192	59,071,009	46,290,879	12,780,130	0.81%	165.66

(A) Source: Bureau of the Census

(B) Includes effective SEV for Act 198 abatements; all figures are taxable values.

(C) Includes limited tax general obligation installment purchase contracts; does not include defeased and escrowed bonds.

(D) General Obligation bonds that are being repaid from enterprise revenues, or reimbursements by other entities.

CITY OF KALAMAZOO, MICHIGAN

**RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR
GENERAL OBLIGATION BONDED DEBT TO
TOTAL GENERAL GOVERNMENTAL EXPENDITURES**

LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>	<u>(A) Total General Expenditures</u>	<u>Ratio of Debt Service to Total General Governmental Expenditures</u>
1996	640,000	537,717	1,177,717	54,320,971	2.2%
1997	780,000	556,533	1,336,533	54,474,535	2.5%
1998	730,000	560,538	1,290,538	52,550,967	2.5%
1999	910,453	571,518	1,481,971	53,396,383	2.8%
2000	940,000	608,099	1,548,099	55,558,876	2.8%
2001	1,375,000	662,302	2,037,302	56,173,916	3.6%
2002	1,485,000	595,817	2,080,817	58,149,288	3.6%
2003	1,725,000	531,293	2,256,293	57,557,374	3.9%
2004	1,795,000	550,799	2,345,799	63,385,661	3.7%
2005	1,825,000	534,453	2,359,453	62,800,606	3.8%

(A) Includes general and special revenue funds.

Note: Only Michigan Transportation Fund and Environmental Improvement bonded debt service is paid from these sources.

CITY OF KALAMAZOO, MICHIGAN
COMPUTATION OF DIRECT AND OVERLAPPING BONDED DEBT
DECEMBER 31, 2005

	Gross Debt	Self-Supporting	Net Debt
Building Authority Bonds:			
Dated March 1, 1993 (2)	\$ 285,000	\$ 285,000	\$ -
Dated June 15, 1993 (2)	105,000	105,000	-
Dated August 1, 1994 (2)	375,000	375,000	-
Dated October 1, 1997 (2)	975,000	975,000	-
Dated November 17, 1998 (2)	5,380,000	5,042,137	337,863
Dated December 1, 1998 (2)	1,300,000	1,258,599	41,401
Dated September 1, 1999 (2) (4)	985,000	-	985,000
Dated April 1, 2001 (2)	3,160,000	-	3,160,000
Dated January 1, 2002 (2)	850,000	-	850,000
Dated January 27, 2003 (2)	1,590,000	-	1,590,000
Dated July 26, 2005	7,725,000	7,725,000	-
Dated April 11, 2005	7,125,000	7,125,000	-
Dated October 10, 2005	2,835,000	2,835,000	-
	<u>32,690,000</u>	<u>25,725,736</u>	<u>6,964,264</u>
Michigan Transportation Fund Obligations:			
Bonds dated June 1, 1994 (2)	365,000	365,000	-
Bonds dated March 1, 1996 (2)	1,260,000	1,260,000	-
Bonds dated April 1, 1998 (2)	1,420,000	1,420,000	-
Bonds dated April 1, 2000 (2)	2,150,000	2,150,000	-
Bonds dated April 1, 2002 (2)	2,275,000	2,275,000	-
Bonds dated April 27, 2004 (2)	3,925,000	3,925,000	-
	<u>11,395,000</u>	<u>11,395,000</u>	<u>-</u>
Water Bonds or Wastewater Bonds:			
Dated June 1, 1996 (Revenue)	2,830,000	2,830,000	-
Dated April 1, 2001 (Revenue)	4,020,000	4,020,000	-
Dated June 6, 2002 (Revenue)	7,960,000	7,960,000	-
Dated October 23, 2002 (Revenue)	3,005,000	3,005,000	-
Dated April 27, 2004 (Revenue)	4,875,000	4,875,000	-
	<u>22,690,000</u>	<u>22,690,000</u>	<u>-</u>
Downtown Development Bonds:			
Dated March 1, 1992 (2)	1,650,000	1,650,000	-
Dated June 15, 1993 (2)	2,090,000	2,090,000	-
Dated September 1, 1997 (2)	2,130,000	2,130,000	-
	<u>5,870,000</u>	<u>5,870,000</u>	<u>-</u>
Special Assessment Bonds:			
Dated September 1, 1999 (2)	380,000	380,000	-
Installment Purchase Obligations:			
Contract Dated June 16, 1997 (2)	265,700	-	265,700
Contract Dated July 24, 2000 (2)	161,000	161,000	-
Contract Dated March 12, 2002 (2)	49,309	49,309	-
Contract Dated April 25, 2005	260,000	260,000	-
	<u>736,009</u>	<u>470,309</u>	<u>265,700</u>
Capital Improvement Bonds:			
Dated August 1, 2002	610,000	-	610,000
Dated April 27, 2004 (1)	7,770,000	2,829,834	4,940,166
	<u>8,380,000</u>	<u>2,829,834</u>	<u>5,550,166</u>
Total Direct Debt	\$ 82,141,009	\$ 69,360,879	\$ 12,780,130
Overlapping Debt:			
Percent Municipality	Amount Outstanding	City's Share	
59.34% Kalamazoo Library District	\$ 10,150,000	\$ 6,023,010	
62.16% Kalamazoo School District	75,671,000	47,037,097	
16.53% Comstock School District	10,181,000	1,682,919	
1.61% Portage School District	35,168,000	566,205	
1.05% Parchment School District	17,475,000	183,488	
22.11% Kalamazoo County	9,500,000	2,100,450	
Net Overlapping Debt			57,593,169
NET DIRECT AND OVERLAPPING DEBT			\$70,373,299

- (1) Secured by the City's full faith and credit and unlimited taxing power.
(2) Secured by the City's full faith and credit and limited taxing power.
(3) Secured by the City's refuse, collection, and disposal levy.
(4) Self-supporting portion is annual payments of \$200,000 to be received from Kalamazoo County for the life of the principal repayments.

CITY OF KALAMAZOO, MICHIGAN

REVENUE BOND COVERAGE

LAST TEN FISCAL YEARS

Fiscal Year	(A)	(B)	Net Revenue Available for Debt Service	Debt Service Requirements (C)			Coverage
	Gross Revenues	Direct Operating Expense		(Revenue Bonds Only)			
				Principal	Interest	Total	
<u>Wastewater System Fund</u>							
1996	18,652,352	14,901,719	3,750,633	1,320,000	647,882	1,967,882	1.91
1997	18,470,158	14,744,094	3,726,064	1,410,000	587,822	1,997,822	1.87
1998	19,374,346	15,859,622	3,514,724	1,465,000	520,848	1,985,848	1.77
1999	19,468,532	14,776,483	4,692,049	1,535,000	448,330	1,983,330	2.37
2000	20,051,449	15,193,703	4,857,746	1,675,000	370,045	2,045,045	2.38
2001	19,095,217	15,546,031	3,549,186	270,000	108,568	378,568	9.38
2002	18,047,797	16,018,129	2,029,668	170,000	209,035	379,035	5.35
2003	19,689,923	15,480,424	4,209,499	175,000	203,680	378,680	11.12
2004	19,165,678	16,537,269	2,628,409	180,000	197,993	377,993	6.95
2005	19,604,929	15,825,509	3,779,420	185,000	191,783	376,783	10.03
<u>Water System Fund</u>							
1996	8,788,543	6,748,604	2,039,939	305,000	937,485	1,242,485	1.64
1997	8,898,031	6,552,109	2,345,922	520,000	1,109,316	1,629,316	1.44
1998	10,113,204	5,843,320	4,269,884	545,000	1,082,584	1,627,584	2.62
1999	9,810,609	6,808,040	3,002,569	570,000	1,054,259	1,624,259	1.85
2000	9,804,250	6,945,196	2,859,054	600,000	1,024,231	1,624,231	1.76
2001	9,937,764	7,334,374	2,603,390	630,000	992,193	1,622,193	1.60
2002	10,664,599	7,547,334	3,117,265	665,000	796,662	1,461,662	2.13
2003	9,716,990	7,435,078	2,281,912	785,000	554,405	1,339,405	1.70
2004	9,926,656	7,281,642	2,645,013	940,000	800,314	1,740,314	1.52
2005	11,248,538	7,376,725	3,871,813	1,010,000	890,428	1,900,428	2.04

(A) Includes charges for services, operating revenues, and interest earned. Beginning in 2001, grant revenues are excluded. Interest earned on construction fund bond monies is excluded.

(B) Includes operations, amortization of bond issuance costs, and other expenses. Beginning in 2001, expenses associated with grant revenues are excluded.

(C) Reflects interest payments paid from operating revenue. Interest payments paid from proceeds of 1992 Water System Revenue Refunding Bonds are excluded.

CITY OF KALAMAZOO, MICHIGAN

DEMOGRAPHIC STATISTICS

LAST TEN FISCAL YEARS

Fiscal Year	(A) Population	(B) Per Capita Income	(C) Median Age	(D) School Enrollment	(E) Unemployment Rate
1996	80,277	24,609	26.8	12,537	4.9%
1997	80,277	25,332	26.8	12,355	4.6%
1998	80,277	26,692	26.8	11,600	3.8%
1999	80,277	27,024	26.8	11,305	4.0%
2000	77,145	27,812	26.1	11,212	4.2%
2001	77,145	28,630	26.1	16,124	5.8%
2002	77,145	29,587	26.1	16,195	6.6%
2003	77,145	30,860	26.1	15,859	7.6%
2004	77,145	31,719	26.1	15,019	8.1%
2005	77,145	32,442	26.1	17,285	7.1%

(A) 1996 to 1999 from Bureau of the Census 1990 Population Report. 2000 to 2005 from Bureau of the Census 2000 Population Report.

(B) 1996 to 2004 from Bureau of Economic Analysis, as updated May, 2005. 2005 is an estimate from the W.E. Upjohn Insititute, as of May, 2006. Information is for Kalamazoo County.

(C) 1996 to 1999 from Bureau of the Census 1990 Population Report. 2000 to 2005 from Bureau of the Census 2004 Population Report.

(D) 1996 to 2000 Kalamazoo Public Schools only. 2001 to 2005 include Kalamazoo Public Schools and private and charter school enrollments.

(E) Michigan Department of Labor and Economic Growth. Data for 2000 to 2005 revised February 2006. The revision of these years by the state is the result of the implementation by the Bureau of Labor Statistics of a redesigned method of producing these estimates.

CITY OF KALAMAZOO, MICHIGAN
PROPERTY VALUE AND CONSTRUCTION
LAST TEN FISCAL YEARS

Year	Property Value (expressed in thousands) (A)				Construction (B)			
	Industrial and Commercial	Residential	Industrial and Commercial Abated Value (C)	Total	Commercial and Industrial		Residential	
					# of Units	Value*	# of Units	Value*
1996	392,766	539,213	64,522	996,501	148	20,134	647	11,283
1997	430,673	571,800	49,119	1,051,592	133	36,595	637	14,696
1998	446,389	627,645	46,257	1,120,291	131	32,518	619	6,224
1999	487,806	665,029	43,171	1,196,006	150	46,427	722	10,012
2000	497,953	694,448	40,128	1,232,529	239	37,430	711	11,774
2001	508,718	732,220	31,951	1,272,889	190	65,081	1,096	10,104
2002	561,623	781,208	15,165	1,357,996	177	96,158	778	12,147
2003	592,878	830,146	35,442	1,458,466	145	48,244	706	13,444
2004	638,823	877,641	37,625	1,554,089	188	60,157	733	17,556
2005	650,067	931,678	18,117	1,599,862	168	119,007	506	13,861

* Amounts expressed in thousands (000's).

(A) Initial State Equalized Value (assessed value at 50% of true cash value) - real property only.

(B) Source: City of Kalamazoo Community Development Department, Inspection Services.

(C) Represents abated values reflected as frozen values prior to rehabilitation or abated at 1/2 the State Equalized Value. Includes real and personal property.

CITY OF KALAMAZOO
MISCELLANEOUS STATISTICAL DATA
DECEMBER 31, 2005

Date Originally Chartered	1883
Date of Incorporation as a City	1884
Form of Government	Commission - Manager
Population	77,145
Area	26 Square Miles
Miles of Streets	266 Miles

Public Safety (Police/Fire):

Number of Stations	7
Number of Regular Fireman	0
Number of Regular Public Safety Officers	244
Number of Community Service Officers	28
Insurance Service Office Rating	ISO III

Public Utilities:

Water:

Number of Jurisdictions Served	10
Number of Accounts	42,693
Wells in Service	103
Miles of Water Main	665.25
Well Capacity	66,790,000 Gallons
Storage Capacity	17,800,000 Gallons
Average Daily Consumption	19,791,000 Gallons
2005 Peak Day Pumping (6/25/05)	35,964,000 Gallons

Water Reclamation:

Number of Sewer Accounts	31,166
Number of Jurisdictions Served (Including Master Metered Contract Municipalities)	19
Miles of Sewer Main (City only)	291
Treatment	Provided by City of Kalamazoo

CITY OF KALAMAZOO**MISCELLANEOUS STATISTICAL DATA (Concluded)****December 31, 2004****Parks and Recreation**

Number of Parks & Other Greenspace	50
Acreage of Parks & Other Greenspace	756

Education:

Kalamazoo Public Schools	10,548 Students
Kalamazoo Christian Schools	1,201 Students
Catholic Schools	3,552 Students
Other Non-Public Schools	992 Students
Charter Schools	992 Students

Metro Transit (Fixed Route and Complimentary Paratransit):

Total Service Hours	189,340
Miles in 2005	2,481,573
Passengers in 2005	3,058,652
Number of Buses	41
Number of Routes	23*
Service	Monday through Saturday

*Fixed Route Only

CITY OF KALAMAZOO, MICHIGAN

SCHEDULE OF REVENUES AND EXPENDITURES

FOR ACTIVITIES RELATED TO THE STATE CONSTRUCTION CODE ACT

MICHIGAN PUBLIC ACT 245

FOR PERIOD ENDING DECEMBER 31, 2005

REVENUES:		
Building Permits	\$	601,388
Electrical Permits		97,884
Mechanical Permits		69,980
Plumbing Permits		36,444
Other Permits & License Fees		69,999
TOTAL REVENUES		\$ 875,695
EXPENDITURES:		
Wages, Salaries and Benefits		462,716
Supplies		8,969
Services		65,127
Capital Expenditures		-
Administrative Overhead*		79,179
TOTAL EXPENDITURES		\$ 615,990
EXCESS/(DEFICIT) REVENUES OVER EXPENDITURES		\$ 259,705

*Administrative overhead is computed for all City departments using a full cost-allocation plan. However, it is not charged to General Fund departments. Public Act 245 of 1999, which requires the inclusion of this schedule, also includes overhead as part of the expenditures to be reported.

CITY OF KALAMAZOO, MICHIGAN
EMPLOYEE'S RETIREMENT SYSTEM
REVENUE BY SOURCE AND EXPENSES BY TYPE

Revenue by Source					
<u>Year Ended December 31</u>	<u>Employee Contributions</u>	<u>Employer Contributions</u>	<u>Employer Contributions as a % of Covered Payroll</u>	<u>Investment Income (Loss)</u>	<u>Total</u>
1996	1,867,369	1,500,398	4.3%	34,192,068	37,559,835
1997	1,918,690	840,966	2.3%	58,295,099	61,054,755
1998	1,912,918	-	-	40,484,951	42,397,869
1999	1,632,579	-	-	48,075,425	49,708,004
2000	1,464,329	-	-	9,692,656	11,156,985
2001	1,421,887	-	-	5,455,410	6,877,297
2002	1,472,060	-	-	(33,506,436)	(32,034,376)
2003	1,477,702	-	-	91,757,266	93,234,968
2004	1,517,175	-	-	56,524,988	58,042,163
2005	1,458,491	-	-	32,199,000	33,657,492

Expenses by Type				
<u>Year Ended December 31</u>	<u>Benefits</u>	<u>Administrative Expenses (1)</u>	<u>Refunds</u>	<u>Total</u>
1996	7,397,140	256,658	441,113	8,094,911
1997	8,101,582	284,899	212,831	8,599,312
1998	8,728,177	326,725	2,187,714 (2)	11,242,616
1999	9,651,489	347,015	342,280	10,340,784
2000	9,787,860	388,328	281,804	10,457,992
2001	11,125,036	350,335	321,125	11,796,496
2002	10,941,864	370,572	216,108	11,528,544
2003	12,206,053	373,945	184,431	12,764,429
2004	13,400,871	381,913	154,161	13,936,945
2005	13,421,166	474,191	305,481	14,200,838

(1) Investment advisor fees are reported as a reduction of investment income, rather than as administrative expense.

(2) Includes transfer to Kalamazoo County of \$1,800,000 during 1998 for District Court Employees.

CITY OF KALAMAZOO, MICHIGAN

TOTAL TAXABLE VALUE

FISCAL YEARS ENDED DECEMBER 31, 2001 THROUGH 2005

Taxable Value as of December 31	Year of State Equalization and Tax Levy	Fiscal Year Ended December 31	Actual Adjusted SEV			Percent Increase over Prior Year
			Ad Valorem Taxable Value (1)	Abated Taxable Value	Total Taxable Value	
2000	2001	2001	1,332,207,350	29,994,850	1,362,202,200	2.26%
2001	2002	2002	1,411,144,730	15,108,650	1,426,253,380	4.70%
2002	2003	2003	1,460,450,750	35,442,050	1,495,892,800	4.88%
2003	2004	2004	1,491,444,525	37,257,246	1,528,701,771	2.19%
2004	2005	2005	1,544,579,241	33,836,143	1,578,415,384	3.25%

Per Capita Total Taxable Value for the Fiscal Year Ending December 31, 2005 (2) \$ 19,815.95

(1) Does not include the value of property located within the City's Renaissance Zone which was created pursuant to the provisions of Act 376 of the Michigan Public Acts of 1996, as amended ("Act 376"). Act 376 was designed to stimulate private investment within the Zone through the abatement of certain property, income, and business taxes. For the fiscal year ending December 31, 2005, the Taxable Value of the property located in the Zone totaled \$3,376,503.

(2) Based on the City's 2000 census of 77,145

TOTAL TAXABLE VALUE BY USE AND CLASS

	Fiscal Years Ended December 31				
	2001	2002	2003	2004	2005
Use					
Commercial	\$457,559,650	\$468,564,730	\$483,660,050	\$507,767,772	\$534,014,385
Industrial	284,155,500	306,436,000	336,919,950	309,894,785	300,634,764
Residential	620,487,050	651,252,650	675,312,800	711,039,214	743,766,235
	<u>\$1,362,202,200</u>	<u>\$1,426,253,380</u>	<u>\$1,495,892,800</u>	<u>\$1,528,701,771</u>	<u>\$1,578,415,384</u>
Class					
Real	\$1,120,358,350	\$1,184,635,880	\$1,237,383,700	\$1,296,480,721	\$1,351,560,784
Personal	241,843,850	241,617,500	258,509,100	232,221,050	226,854,600
	<u>\$1,362,202,200</u>	<u>\$1,426,253,380</u>	<u>\$1,495,892,800</u>	<u>\$1,528,701,771</u>	<u>\$1,578,415,384</u>

PERCENT OF TOTAL TAXABLE VALUE BY USE AND CLASS

	Fiscal Years Ended December 31				
	2001	2002	2003	2004	2005
Use					
Commercial	33.59%	32.85%	32.33%	33.22%	33.83%
Industrial	20.86%	21.49%	22.52%	20.27%	19.05%
Residential	45.55%	45.66%	45.14%	46.51%	47.12%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Class					
Real	82.25%	83.06%	82.72%	84.81%	85.63%
Personal	17.75%	16.94%	17.28%	15.19%	14.37%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

CITY OF KALAMAZOO, MICHIGAN

STATE EQUALIZED VALUATION (SEV)

FISCAL YEARS ENDED DECEMBER 31, 2001 THROUGH 2005

Assessed Value as of December 31	Year of State Equalization and Tax Levy	Fiscal Year Ended December 31	Actual Adjusted SEV			Percent Increase
			Ad Valorem SEV Value	Abated SEV Value	Total SEV Value	
2000	2001	2001	1,480,093,765	62,064,600	1,542,158,365	2.25%
2001	2002	2002	1,580,375,980	28,091,000	1,608,466,980	4.30%
2002	2003	2003	1,667,513,680	35,850,050	1,703,363,730	5.90%
2003	2004	2004	1,732,394,900	37,296,800	1,769,691,700	3.89%
2004	2005	2005	1,795,070,620	33,975,900	1,829,046,520	3.35%

Per Capita Total SEV for the Fiscal Year Ending December 31, 2005 (1) \$ 23,709.20

(1) Based on the City's 2000 census of 77,145

TOTAL SEV BY USE AND CLASS

	Fiscal Years Ended December 31				
	2001	2002	2003	2004	2005
Use					
Commercial	\$489,932,000	\$500,713,730	\$528,423,500	\$576,772,600	\$593,461,785
Industrial	319,899,300	326,477,700	346,110,900	316,876,700	271,393,700
Residential	732,327,065	781,275,550	828,829,330	876,042,400	930,215,135
	<u>\$1,542,158,365</u>	<u>\$1,608,466,980</u>	<u>\$1,703,363,730</u>	<u>\$1,769,691,700</u>	<u>\$1,795,070,620</u>
Class					
Real	\$1,295,900,365	\$1,369,591,030	\$1,444,661,180	\$1,538,229,150	\$1,578,198,420
Personal	246,258,000	238,875,950	258,702,550	231,462,550	216,872,200
	<u>\$1,542,158,365</u>	<u>\$1,608,466,980</u>	<u>\$1,703,363,730</u>	<u>\$1,769,691,700</u>	<u>\$1,795,070,620</u>

PERCENT OF TOTAL SEV BY USE AND CLASS

	Fiscal Years Ended December 31				
	2001	2002	2003	2004	2005
Use					
Commercial	31.77%	31.13%	31.02%	32.59%	33.06%
Industrial	20.74%	20.30%	20.32%	17.91%	15.12%
Residential	47.49%	48.57%	48.66%	49.50%	51.82%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Class					
Real	84.03%	85.15%	84.81%	86.92%	87.92%
Personal	15.97%	14.85%	15.19%	13.08%	12.08%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

CITY OF KALAMAZOO, MICHIGAN
MAXIMUM OPERATING TAX RATES
DECEMBER 31, 2005

<u>Millage Classification</u>	<u>Millage Authorized</u>	<u>Cumulative Millage Reduction Fraction (A)</u>	<u>Maximum Allowable Millage</u>	<u>Actual Millage Levied</u>
Operating	20.0000	0.9635	19.2705	19.2705
Refuse Collection and Disposal	3.0000	0.9635	2.8906	2.8906
Transportation	<u>1.0000</u>	<u>1.0000</u>	<u>1.0000</u>	<u>1.0000</u>
	<u>24.0000</u>	<u>2.9270</u>	<u>23.1611</u>	<u>23.1611</u>

(A) The cumulative millage reduction fraction reduces the authorized millage based on the Headlee amendment which limits the rate of growth of property tax revenue to the consumers price index.

CITY OF KALAMAZOO, MICHIGAN
REVENUE SHARING PAYMENTS FROM THE STATE OF MICHIGAN
FISCAL YEARS ENDED DECEMBER 31, 2001 THROUGH 2005

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Sales Tax	\$ 12,467,071	\$ 11,966,936	\$ 11,037,576	\$ 10,069,811	\$ 10,090,448
% of General Fund Revenue (1)	26.8%	25.4%	23.3%	21.3%	20.4%

(1) Non-GAAP, budgetary basis

CITY OF KALAMAZOO, MICHIGAN

RECEIPTS FROM MICHIGAN TRANSPORTATION FUND

FISCAL YEARS ENDED DECEMBER 31, 2003 THROUGH 2005

	Fiscal Years Ended December 31		
	2003	2004	2005
<u>Cash Basis</u>			
Major Streets	\$4,107,782	\$4,363,410	\$4,163,652
Local Streets	1,146,596	1,219,380	1,164,396
	<u>\$ 5,254,378</u>	<u>\$ 5,582,791</u>	<u>\$ 5,328,049</u>

	Fiscal Years Ended December 31		
	2003	2004	2005
<u>Accrual Basis</u>			
Major Streets	\$4,154,486	\$4,351,527	\$4,154,921
Local Streets	1,159,188	1,216,600	1,162,004
	<u>\$ 5,313,674</u>	<u>\$ 5,568,128</u>	<u>\$ 5,316,925</u>

CITY OF KALAMAZOO, MICHIGAN**LABOR CONTRACTS****DECEMBER 31, 2005**

<u>Bargaining Unit</u>	<u>Membership</u>	<u>Contract Expiration Date</u>
American Federation of State, County and Municipal Employees	172	October 2, 2008
Kalamazoo Municipal Employees Association	140	December 31, 2008
Kalamazoo Police Supervisors Association (Captains, Lieutenants and Sergeants)	53	December 31, 2005
Kalamazoo Police Officers Association (Officers and Detectives)	220	December 31, 2004*
International Association of Fire Fighters	5	December 31, 2005
Amalgamated Transit Union (Bus Drivers and Mechanics)	109	February 13, 2007
Non-Union	<u>177</u>	Not Applicable
Total Employees	<u>876</u>	

*In process of negotiation.

CITY OF KALAMAZOO, MICHIGAN**PROFILE OF MAJOR EMPLOYERS
IN KALAMAZOO COUNTY**

<u>Company</u>	<u>Principal Product or Service</u>	<u>Approx. Number of Employees</u>
Pfizer Corporation	Pharmaceuticals	5,700
Western Michigan University	Education	3,500
Bronson Healthcare Group	Health Care	3,000
National City Bank	Banking Services	2,700
Borgess Health Alliance	Health Care	2,440
Kalamazoo Public Schools	Education	2,100
Stryker Corporation	Medical Equipment	1,400
Summit Polymers	Auto Supplier - Interior Trim	1,200
Meijer, Inc.	Retail Goods and Household Products	1,200
Portage Public Schools	Education	1,173
County of Kalamazoo	Government	1,000
MPI Research	Toxicology Contract and Research	1,000
United States Postal Service	Mail Services	945
City of Kalamazoo	Government	876
Kalamazoo Valley Community College	Education	875
Eaton Corporation	Global Engineering, Truck Components	850
Target Regional Distribution	Distribution Center	750
MSU Center for Medical Studies	Health Care	529
ABEX/NWL Aerospace	Aerospace and Aircraft Components	502
AT&T	Telephone Communications	480
Graphic Packaging	Printing and Packaging Paper	470
State Farm Auto Claims Center	Claims Processing Center	450
American Greetings/Designware	Paper Products	425
Gentiva Health Services	Home Nursing	400
Flowserve FSD Corporation	Mechanical Sales	387

CITY OF KALAMAZOO, MICHIGAN**EMPLOYMENT STATISTICS****2000 - 2005**

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
City of Kalamazoo						
Employed	37,921	37,078	36,193	36,124	36,540	37,098
Unemployed	<u>1,665</u>	<u>2,265</u>	<u>2,553</u>	<u>2,974</u>	<u>3,216</u>	<u>2,842</u>
Labor Force	<u><u>39,586</u></u>	<u><u>39,343</u></u>	<u><u>38,746</u></u>	<u><u>39,098</u></u>	<u><u>39,756</u></u>	<u><u>39,940</u></u>
Unemployed as % of Labor Force	<u><u>4.2%</u></u>	<u><u>5.8%</u></u>	<u><u>6.6%</u></u>	<u><u>7.6%</u></u>	<u><u>8.1%</u></u>	<u><u>7.1%</u></u>
State of Michigan						
Employed	4,967,218	4,864,600	4,724,036	4,695,148	4,719,343	4,753,822
Unemployed	<u>190,156</u>	<u>267,308</u>	<u>314,785</u>	<u>358,358</u>	<u>359,636</u>	<u>343,635</u>
Labor Force	<u><u>5,157,374</u></u>	<u><u>5,131,908</u></u>	<u><u>5,038,821</u></u>	<u><u>5,053,506</u></u>	<u><u>5,078,979</u></u>	<u><u>5,097,457</u></u>
Unemployed as % of Labor Force	<u><u>3.7%</u></u>	<u><u>5.2%</u></u>	<u><u>6.2%</u></u>	<u><u>7.1%</u></u>	<u><u>7.1%</u></u>	<u><u>6.7%</u></u>

Source: Michigan Department of Labor and Economic Growth - Office of Labor Market Information

Note: Data for 2000-2005 revised February 2006. The revision of these years by the state is the result of the implementation by the Bureau of Labor Statistics of a redesigned method of producing these estimates.

CITY OF KALAMAZOO, MICHIGAN**WATER SUPPLY SYSTEM****WATER SUPPLY FRANCHISES**

<u>Franchisor</u>	<u>Effective Date</u>	<u>Year of Renewal</u>
Comstock Township	23-Dec-64	1994*
Cooper Township	18-Nov-68	1998*
Kalamazoo Township	30-Jan-70	2000*
Oshtemo Township	8-Feb-65	1995*
Pavilion Township	18-Nov-68	1998*
City of Portage (1)	28-May-74	2004
City of Portage (1)	21-Apr-80	2010
City of Portage (1)	10-Jul-89	2019
Richland Township	28-Feb-72	2002*
Richland Village	26-Jul-76	2006
Texas Township	11-Dec-67	1997*

* For any contracts which have expired, the City and the affected Township(s) are continuing their relationship under the continuation portion of the agreement(s).

(1) The City of Portage has three agreements due to the addition of new service areas at different times.

CITY OF KALAMAZOO, MICHIGAN**WATER SUPPLY SYSTEM****APPROXIMATE NUMBER OF WATER SUPPLY CUSTOMERS
BY LOCATION AND USER CLASSIFICATION****LAST FIVE FISCAL YEARS**

<u>Customer Location and Classification</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
City:					
Residential	18,185	18,115	18,148	18,102	18,101
Commercial / Industrial	<u>4,857</u>	<u>4,907</u>	<u>4,939</u>	<u>4,907</u>	<u>4,973</u>
Total City	<u>23,042</u>	<u>23,022</u>	<u>23,087</u>	<u>23,009</u>	<u>23,074</u>
Out City:					
Residential	13,930	14,165	14,487	14,970	15,393
Commercial / Industrial	<u>3,695</u>	<u>3,896</u>	<u>4,013</u>	<u>4,198</u>	<u>4,226</u>
Total Out City	<u>17,625</u>	<u>18,061</u>	<u>18,500</u>	<u>19,168</u>	<u>19,619</u>
Total System:					
Residential	32,115	32,280	32,635	33,072	33,494
Commercial / Industrial	<u>8,552</u>	<u>8,803</u>	<u>8,952</u>	<u>9,105</u>	<u>9,199</u>
Total System	<u>40,667</u>	<u>41,083</u>	<u>41,587</u>	<u>42,177</u>	<u>42,693</u>

(1) Data listed represents the number of meters and/or fire protection lines/hydrants for each year.

CITY OF KALAMAZOO, MICHIGAN

WATER SUPPLY SYSTEM

APPROXIMATE NUMBER OF WATER CUSTOMERS BY LOCATION
AND SIZE OF METER OR FIRE PROTECTION LINE/HYDRANT

	<u>2004</u>	<u>2005</u>
<u>Meter Location and Size</u>		
City:		
5/8" - 3/4"	16,774	16,703
1"	2,099	2,168
1 1/2"	234	236
2"	1,010	1,049
3"	178	183
4"	94	98
6"	11	11
8"	0	0
Total City	<u>20,400</u>	<u>20,448</u>
Out City:		
5/8" - 3/4"	8,525	8,485
1"	6,536	6,952
1 1/2"	274	306
2"	814	825
3"	112	113
4"	51	53
6"	10	10
8"	0	0
Total Out City	<u>16,322</u>	<u>16,744</u>
Total Meters	<u>36,722</u>	<u>37,192</u>
<u>Location and Size of Fire Protection Line/Hydrant</u>		
City:		
4"	135	156
6"	132	135
8"	77	78
10"	1	1
Hydrants	2,240	2,256
Total City	<u>2,585</u>	<u>2,626</u>
Out City:		
4"	105	140
6"	77	82
8"	61	63
10"	4	4
Hydrants	2,394	2,586
Total Out City	<u>2,641</u>	<u>2,875</u>
Total Fire Protection	<u>5,226</u>	<u>5,501</u>
Total Service Connections	<u>41,948</u>	<u>42,693</u>

CITY OF KALAMAZOO, MICHIGAN**WATER SUPPLY SYSTEM****WATER SUPPLY READY-TO-SERVE CHARGES
BY METER LOCATION AND SIZE****LAST FIVE FISCAL YEARS**

<u>Meter Location and Size</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
City (Quarterly Billed Accounts):					
5/8" Meter	\$ 11.00	\$ 12.03	\$ 12.03	\$ 11.93	\$ 14.92
1" Meter	13.95	15.35	15.35	14.86	18.84
1-1/2" Meter	16.90	18.67	18.67	17.78	22.75
2" Meter	25.01	27.81	27.81	25.83	33.51
City (Monthly Billed Accounts):					
5/8" Meter	6.08	6.49	6.49	7.06	8.40
1" Meter	7.06	7.60	7.60	8.03	9.71
1-1/2" Meter	8.05	8.70	8.70	9.01	11.01
2" Meter	10.75	11.75	11.75	11.69	14.60
3" Meter	30.67	34.18	34.18	31.43	41.01
4" Meter	38.05	42.49	42.49	38.75	50.79
6" Meter	55.26	61.87	61.87	55.81	73.62
8" Meter	74.94	84.03	84.03	75.31	99.70
City (Monthly Fire Protection Charge):					
4" Detector Check	16.29	17.27	17.27	15.94	15.57
6" Detector Check	20.06	21.52	21.52	19.82	19.45
8" Detector Check	27.36	29.77	29.77	27.28	27.29
10" Detector Check	53.94	59.81	59.81	54.00	59.87
Fire Hydrant	3.33	3.33	3.33	3.33	3.33
Out City (Quarterly Billed Accounts):					
5/8" Meter	12.94	13.84	13.84	14.62	18.61
1" Meter	16.66	17.89	17.89	18.62	23.99
1-1/2" Meter	20.39	21.94	21.94	22.62	29.38
2" Meter	30.64	33.07	33.07	33.63	44.20
Out City (Monthly Billed Accounts):					
5/8" Meter	6.73	7.09	7.09	7.95	9.63
1" Meter	7.97	8.44	8.44	9.29	11.42
1-1/2" Meter	9.21	9.79	9.79	10.62	13.22
2" Meter	12.63	13.50	13.50	14.29	18.16
3" Meter	37.78	40.83	40.83	41.30	54.52
4" Meter	47.10	50.95	50.95	51.30	67.99
6" Meter	68.84	74.56	74.56	74.64	99.41
8" Meter	93.69	101.55	101.55	101.31	135.33
Out City (Monthly Fire Protection Charge):					
4" Detector Check	24.90	25.18	25.18	25.30	26.92
6" Detector Check	30.21	30.45	30.45	31.09	33.30
8" Detector Check	40.33	40.65	40.65	42.12	45.82
10" Detector Check	75.27	77.40	77.40	79.80	93.28
Fire Hydrant	3.33	3.33	3.33	3.33	3.33

CITY OF KALAMAZOO, MICHIGAN**WATER SUPPLY SYSTEM****WATER SUPPLY COMMODITY CHARGES BY
METER LOCATION AND CLASSIFICATION (1)****LAST FIVE FISCAL YEARS**

<u>Meter Location and Classification</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
City:					
Residential	\$0.259	\$0.262	\$0.262	\$0.261	\$0.212
Multifamily	0.184	0.186	0.186	0.174	0.144
Commercial/Industrial	0.220	0.219	0.219	0.206	0.169
Fire Protection - First 15 M3	0.220	0.219	0.219	0.206	0.169
Fire Protection - Over 15 M3	0.660	0.657	0.657	0.618	0.507
Seasonal Uses	0.459	0.467	0.467	0.442	0.345
Out City:					
Residential	\$0.386	\$0.402	\$0.402	\$0.457	\$0.479
Multifamily	0.277	0.288	0.288	0.300	0.317
Commercial/Industrial	0.323	0.333	0.333	0.354	0.373
Fire Protection - First 15 M3	0.320	0.333	0.333	0.354	0.373
Fire Protection - Over 15 M3	0.960	0.999	0.999	1.062	1.119
Seasonal Uses	0.709	0.743	0.743	0.854	0.892

(1) per cubic meter

CITY OF KALAMAZOO, MICHIGAN

WATER SUPPLY SYSTEM

HISTORY OF SYSTEM RATE INCREASES

<u>Date Increase Effective</u>	<u>Percent Increase (1)</u>
January 1, 1984	5.00%
February 8, 1995	7.60%
March 2, 1987	5.00%
January 1, 1991	8.00%
January 1, 1993	8.00%
January 1, 1995	5.00%
March 3, 1997	5.00%
February 1, 1998	4.90%
March 15, 1999	2.00%
July 1, 2001	2.00%
February 1, 2002	2.00%
April 30, 2004	3.00%
March 4, 2005	3.00%

(1) Reflects anticipated increase in total system revenues. The actual change in rates by meter location and classification vary.

CITY OF KALAMAZOO

WATER SUPPLY SYSTEM

WATER SUPPLY VOLUME AS PUMPED AND BILLED (1)

LAST FIVE FISCAL YEARS

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Pumped	26,899,106	27,801,468	26,627,560	25,794,132	27,341,264
Billed	<u>24,254,916</u>	<u>25,568,124</u>	<u>22,717,891</u>	<u>22,715,384</u>	<u>24,137,318</u>
Unaccounted (2)	<u><u>2,644,190</u></u>	<u><u>2,233,344</u></u>	<u><u>3,909,669</u></u>	<u><u>3,078,748</u></u>	<u><u>3,203,946</u></u>
Unaccounted as a Percent of Pumped (3)	<u><u>9.83%</u></u>	<u><u>8.03%</u></u>	<u><u>14.68%</u></u>	<u><u>11.94%</u></u>	<u><u>11.72%</u></u>

(1) Measured in Cubic Meters

(2) Unaccounted water volume is due primarily to the flushing of lines, pressure releases during routine maintenance and, to a diminishing degree, line loss and slow meters. As part of its quality control efforts, the City routinely flushes transmission lines.

CITY OF KALAMAZOO, MICHIGAN**WATER SUPPLY SYSTEM****WATER VOLUME AS BILLED BY METER LOCATION AND CLASSIFICATION (1)****LAST FIVE FISCAL YEARS**

<u>Meter Location and Classification</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
City:					
Residential	4,886,463	5,185,699	4,678,603	4,702,932	4,776,832
Multifamily	2,310,958	2,359,708	2,026,972	2,057,123	2,013,828
Commercial/Industrial	7,218,443	7,369,718	6,515,605	6,375,474	6,434,460
Fire Protection	14,058 ⁽³⁾	24,145	17,526	13,226	2,020
Seasonal Uses (1)	478,760	682,097	533,360	427,194	564,031
Total City	<u>14,908,682</u>	<u>15,621,367</u>	<u>13,772,066</u>	<u>13,575,949</u>	<u>13,791,171</u>
Out City:					
Residential	4,892,758	5,507,974	4,863,779	4,999,192	5,799,993
Multifamily	1,595,360	1,573,023	1,490,873	1,542,022	1,621,964
Commercial/Industrial	2,505,781	2,332,723	2,163,269	2,206,978	2,355,603
Fire Protection	3,500	1,977	4,417	6,734	7,296
Seasonal Uses (1)	248,835	531,060	423,487	384,509	561,291
Total Out City	<u>9,246,234</u>	<u>9,946,757</u>	<u>8,945,825</u>	<u>9,139,435</u>	<u>10,346,147</u>
Total System:					
Residential	9,779,221	10,693,673	9,542,382	9,702,124	10,576,825
Multifamily	3,906,318	3,932,731	3,517,845	3,599,145	3,635,792
Commercial/Industrial	9,724,224	9,702,441	8,678,874	8,582,452	8,790,063
Fire Protection	17,558	26,122	21,943	19,960	9,316
Seasonal Uses (2)	727,595	1,213,157	956,847	811,703	1,125,322
Total System	<u>24,154,916</u>	<u>25,568,124</u>	<u>22,717,891</u>	<u>22,715,384</u>	<u>24,137,318</u>

(1) Water volume is measured in cubic meters.

(2) Represents flow relating to sprinkler systems which are metered separately.

(3) A correction was made in 2000 that related to water volume that occurred in 1999. This correction exceeded the volume for 2000 and caused the net water volume for the year to appear as negative.

CITY OF KALAMAZOO, MICHIGAN

WATER SUPPLY SYSTEM

AVERAGE AND PEAK DAILY WATER SUPPLY VOLUME (1)

LAST FIVE FISCAL YEARS

	2001	2002	2003	2004	2005
Average Daily Water Supply	19.471	20.120	19.274	18.620	19.791
Peak Daily Water Supply	36.817	40.793	40.401	32.868	35.964
Peak as a Percent of Average	189.09%	202.75%	209.61%	176.52%	181.72%

(1) Measured in millions of gallons per day.

CITY OF KALAMAZOO, MICHIGAN

WATER SUPPLY SYSTEM

WATER SUPPLY REVENUE AS BILLED
BY METER LOCATION AND CLASSIFICATION

LAST FIVE FISCAL YEARS

<u>Meter Location and Classification</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
City:					
Residential	\$ 2,013,283	\$ 2,214,094	\$ 2,053,156	\$ 2,105,124	\$ 2,077,008
Multifamily	521,434	556,324	494,134	480,151	440,957
Commercial/Industrial	1,761,725	1,871,601	1,685,351	1,585,398	1,428,144
Fire Protection	124,532	132,630	124,095	114,634	108,050
Seasonal Uses	250,146	353,737	286,379	227,223	240,876
Total City	<u>4,671,120</u>	<u>5,128,386</u>	<u>4,643,115</u>	<u>4,512,530</u>	<u>4,295,035</u>
Out City:					
Residential	\$ 2,641,940	\$ 3,057,363	\$ 2,780,762	\$ 3,166,987	\$ 3,970,922
Multifamily	534,662	566,432	536,870	576,265	668,041
Commercial/Industrial	934,744	933,956	884,258	941,205	1,094,782
Fire Protection	122,568	101,001	111,297	121,082	149,582
Seasonal Uses	276,100	425,357	344,883	358,216	509,619
Total Out City	<u>4,510,014</u>	<u>5,084,109</u>	<u>4,658,070</u>	<u>5,163,755</u>	<u>6,392,946</u>
Total System:					
Residential	\$ 4,655,223	\$ 5,271,457	\$ 4,833,918	\$ 5,272,111	\$ 6,047,930
Multifamily	1,056,096	1,122,756	1,031,004	1,056,416	1,108,998
Commercial/Industrial	2,696,469	2,805,557	2,569,609	2,526,603	2,522,926
Fire Protection	247,100	233,631	235,392	235,716	257,632
Seasonal Uses	526,246	779,094	631,262	585,439	750,495
Total System	<u>\$ 9,181,134</u>	<u>\$ 10,212,495</u>	<u>\$ 9,301,185</u>	<u>\$ 9,676,285</u>	<u>\$ 10,687,981</u>

CITY OF KALAMAZOO, MICHIGAN**WATER SUPPLY SYSTEM****TEN LARGEST WATER CUSTOMERS
BY VOLUME AND REVENUE****YEAR ENDED DECEMBER 31, 2005**

<u>Customer</u>	<u>Principal Product or Service</u>	<u>Water Volume (cubic meters)</u>	<u>Percent of Total (1)</u>	<u>Water Revenue</u>	<u>Percent of Total (2)</u>
Western Michigan University	Higher Education	863,363	3.6%	\$ 230,604	2.2%
Graphic Packaging	Paper Products	1,153,302	4.8%	207,883	1.9%
Pfizer Corporation	Pharmaceuticals	589,750	2.4%	154,379	1.4%
Borgess Medical Center	Hospital	554,272	2.3%	109,312	1.0%
Occidental Development	Real Estate Development	142,553	0.6%	90,729	0.8%
Pavilion Estates	Mobile Home Park	123,640	0.5%	59,819	0.6%
Concord Place Apartments	Apartment Complex	124,470	0.5%	48,236	0.5%
Bronson Methodist Hospital	Hospital	210,649	0.9%	45,233	0.4%
Bunting Bearing Corp	Auto Parts	120,340	0.5%	44,496	0.4%
Kalamazoo Public Schools	Education	93,529	0.4%	44,454	0.4%
		<u>3,975,868</u>	<u>16.5%</u>	<u>\$ 1,035,144</u>	<u>9.7%</u>

(1) Based on water volume of 22,715,384 cubic meters.

(2) Based on Water System billed revenue of \$9,676,285.

CITY OF KALAMAZOO, MICHIGAN

WASTEWATER SYSTEM

WASTEWATER SERVICE AGREEMENTS

<u>Municipality</u>	<u>Date of Execution</u>	<u>Year to be Renewed</u>
City of Galesburg (2)	29-Jul-85	2025
City of Parchment (2)	23-Jul-85	2015
City of Portage (2)	27-Jan-86	2016
Village of Augusta (2)	26-Mar-81	2021
Village of Mattawan (2)	18-Nov-96	2026
Village of Vicksburg (2)	16-Apr-85	2015
Charleston Township (1)	3-Jul-98	2016
Comstock Township (1)	16-Sep-80	2010
Cooper Township (1)	10-Oct-83	2013
Kalamazoo Township (1)	6-Oct-80	2010
Oshtemo Township (1)	8-Oct-84	2014
Pavilion Township (1)	16-Mar-81	2011
Schoolcraft Township (1)	25-Oct-82	2012
Texas Township (1)	22-Oct-84	2014
Gull Lake Sewer Authority (2)	15-Sep-80	2010
Barry County		
Prairieville Township		
Richland Township		
Ross Township		

(1) Served by a retail service agreement.

(2) Served by a wholesale service agreement.

CITY OF KALAMAZOO, MICHIGAN

WASTEWATER SYSTEM

APPROXIMATE NUMBER OF WASTEWATER CUSTOMERS
BY LOCATION AND USER CLASSIFICATION

LAST FIVE FISCAL YEARS

Customer Location and Classification	2001	2002	2003	2004	2005
<u>Retail Customers</u>					
<i>In-City Retail Customers</i>					
Residential	16,677	16,678	16,719	16,724	16,693
Commercial	2,795	2,819	2,839	2,815	2,932
Industrial	172	182	155	153	152
Sub-Total	<u>19,644</u>	<u>19,679</u>	<u>19,713</u>	<u>19,692</u>	<u>19,777</u>
<i>Out-City Retail Customers</i>					
Residential	7,447	7,734	7,946	8,259	8,486
Commercial	1,165	1,226	1,251	1,265	1,378
Industrial	58	70	49	49	46
Sub-Total	<u>8,670</u>	<u>9,030</u>	<u>9,246</u>	<u>9,573</u>	<u>9,910</u>
Total Retail Customers	<u>28,314</u>	<u>28,709</u>	<u>28,959</u>	<u>29,265</u>	<u>29,687</u>
<u>Wholesale Customers</u>					
Industries	2	2	2	2	2
Wholesale Municipal Customers	8	8	8	8	8
Dewatering Accounts	9	12	10	7	6
Septage Haulers	12	20	9	20	21
Sub-Total	<u>31</u>	<u>42</u>	<u>29</u>	<u>37</u>	<u>37</u>
<u>Flat Rate Customers</u>	<u>1,180</u>	<u>1,325</u>	<u>1,380</u>	<u>1,412</u>	<u>1,442</u>
Total Sewer Customers	<u>29,525</u>	<u>30,076</u>	<u>30,368</u>	<u>30,714</u>	<u>31,166</u>

CITY OF KALAMAZOO, MICHIGAN**WASTEWATER SYSTEM****NUMBER OF RETAIL CUSTOMERS BY METER SIZE****LAST FIVE FISCAL YEARS**

<u>Meter Size</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
5/8" - 3/4"	22,447	22,583	22,644	22,561	22,475
1"	3,726	3,918	4,106	4,449	4,746
1-1/2"	356	368	384	385	421
2"	1,387	1,426	1,427	1,466	1,598
3"	259	264	256	260	288
4"	128	138	130	132	146
6"	11	12	12	12	13
	<u>28,314</u>	<u>28,709</u>	<u>28,959</u>	<u>29,265</u>	<u>29,687</u>

CITY OF KALAMAZOO, MICHIGAN

WASTEWATER SYSTEM

WASTEWATER READY TO SERVE CHARGES
BY WATER METER LOCATION AND SIZE

LAST FIVE FISCAL YEARS

<u>Meter Location and Size</u>	<u>1999 - 2001 (1)</u>		<u>2001- 2003 (2)</u>		<u>2003- 2005 (3)</u>	
	<u>Monthly</u>	<u>Quarterly</u>	<u>Monthly</u>	<u>Quarterly</u>	<u>Monthly</u>	<u>Quarterly</u>
City:						
5/8"	\$ 6.41	\$ 8.27	\$ 6.51	\$ 7.77	\$ 6.87	\$ 8.00
3/4"	6.49	8.55	6.57	7.96	6.93	8.17
1"	6.77	9.39	6.77	8.53	7.10	8.68
1-1/2"	7.15	10.51	7.02	9.28	7.33	9.36
2"	8.18	13.59	7.71	11.36	7.94	11.23
3"	15.73	36.26	12.80	26.65	12.53	24.96
4"	18.54	44.66	14.69	32.31	14.22	30.05
6"	25.06	64.24	19.09	45.52	18.18	41.93
Out City:						
5/8"	\$ 6.59	\$ 10.24	\$ 6.91	\$ 10.25	\$ 7.50	\$ 11.30
3/4"	6.77	10.79	7.08	10.76	7.69	11.88
1"	7.31	12.43	7.59	12.27	8.26	13.59
1-1/2"	8.05	14.63	8.25	14.27	9.02	15.87
2"	10.06	20.66	10.09	19.80	11.11	22.14
3"	24.86	65.06	23.64	60.44	26.51	68.34
4"	30.34	81.51	28.66	75.49	32.21	85.45
6"	43.13	119.87	40.36	110.61	45.53	125.37

(1) Rate change effective September 27, 1999.

(2) Rate change effective July 1, 2001.

(3) Rate change effective April 30, 2004.

CITY OF KALAMAZOO, MICHIGAN

WASTEWATER SYSTEM

WASTEWATER TREATMENT CHARGES

BY CUSTOMER CLASSIFICATION (1)

LAST FIVE FISCAL YEARS

<u>Fiscal Years Ended December 31</u>	<u>In-City Retail Customers</u>	<u>Out-City Retail Customers</u>	<u>Wholesale Municipal Customers</u>	<u>City of Galesburg (2)</u>	<u>Septage Haulers</u>	<u>In-City Dewatering Customers</u>	<u>Out-City Dewatering Customers</u>
1999-2000 (3)	0.299	0.446	0.244	0.268	13.919	0.268	0.459
2000-2003 (4)	0.282	0.488	0.259	0.291	17.802	0.258	0.501
2003-2005 (5)	0.288	0.561	0.312	0.351	27.978	0.261	0.574

(1) Per cubic meter

(2) Since the City of Galesburg does not have a master meter, the wastewater treatment charge is adjusted for the cost of infiltration and inflow, which is water other than wastewater entering the System.

(3) Rate change effective September 27, 1999.

(4) Rate change effective July 1, 2001.

(5) Rate change effective April 30, 2004.

CITY OF KALAMAZOO, MICHIGAN

WASTEWATER SYSTEM

WASTEWATER TREATMENT VOLUME
AS BILLED BY USER CLASSIFICATION (1)

LAST FIVE FISCAL YEARS

	2001	2002	2003	2004	2005
Retail Customers					
Residential	6,484,713	6,566,366	6,353,479	6,075,815	5,940,966
Commercial	8,709,156	9,081,189	8,112,063	8,158,941	8,393,078
Industrial	1,976,668	1,815,409	1,898,414	1,734,399	1,896,469
Sub-Total	17,170,537	17,462,964	16,363,956	15,969,155	16,230,513
Wholesale Customers					
Industries	7,456,515	7,223,118	6,937,039	6,238,942	6,052,304
Wholesale Municipal	7,850,744	7,594,052	7,984,969	8,126,901	8,096,596
Dewatering Accounts	277,488	641,582	187,542	124,769	176,306
Septage Haulers	25,876	25,569	23,847	12,559	10,173
Sub-Total	15,610,623	15,484,321	15,133,397	14,503,171	14,335,379
Total Wastewater Billed	32,781,160	32,947,285	31,497,353	30,472,326	30,565,892

(1) Measured in Cubic Meters.

CITY OF KALAMAZOO, MICHIGAN

WASTEWATER SYSTEM

WASTEWATER VOLUME AS TREATED AND BILLED (1)

LAST FIVE FISCAL YEARS

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Metered Wastewater Volume	39,373,581	38,959,122	36,869,796	36,075,759	36,859,197
Water Consumption as Billed	<u>32,781,160</u>	<u>32,947,285</u>	<u>31,497,353</u>	<u>30,472,326</u>	<u>30,565,892</u>
Difference (2)	<u>6,592,421</u>	<u>6,011,837</u>	<u>5,372,443</u>	<u>5,603,433</u>	<u>6,293,305</u>
Difference as a % of Metered Wastewater Volume	16.7%	15.4%	14.6%	15.5%	17.1%

(1) Measured in Cubic Meters.

(2) The difference between the wastewater volume as treated and billed is due, in part, to slow meters and infiltration and inflow which is water other than wastewater that enters the System.

CITY OF KALAMAZOO, MICHIGAN

WASTEWATER SYSTEM

AVERAGE AND PEAK DAILY
WASTEWATER TREATMENT VOLUME (1)

LAST FIVE FISCAL YEARS

	2001	2002	2003	2004	2005
Average Daily Sewage Disposal Volume	28.5	28.2	26.7	26.0	26.7
Peak Daily Sewage Disposal Volume	43.4	36.6	32.7	33.6	42.7
Peak as a Percent of Average	152.28%	129.79%	122.47%	129.23%	159.93%

(1) Measured in millions of gallons per day.

CITY OF KALAMAZOO, MICHIGAN
WASTEWATER SYSTEM
TEN LARGEST CUSTOMERS
BY WASTEWATER SYSTEM REVENUE AND VOLUME AS BILLED
YEAR ENDED DECEMBER 31, 2005

Customer	Principal Product or Service	Wastewater Volume (cubic meters)	Percent of Total (1)	Wastewater Treatment Revenue	Wastewater Surcharge Revenue	Wastewater System Revenue	Percent of Total (2)
Pfizer	Pharmaceuticals	4,680,669	15.3%	\$ 767,630	\$ 5,207,555	\$ 5,975,185	31.4%
City of Portage	Municipality	5,932,362	19.4%	1,850,966	-	1,850,966	9.7%
Graphic Packaging	Paper Products	1,575,398	5.2%	125,341	1,117,508	1,242,850	6.5%
Kalsec	Food Grade Flavorings	207,053	0.7%	53,579	654,115	707,693	3.7%
Gull Lake Sewer Authority District	Municipality	808,717	2.6%	252,320	-	252,320	1.3%
Cytec	Chemicals	230,183	0.8%	26,931	224,453	251,385	1.3%
Western Michigan University	Higher Education	699,303	2.3%	201,399	-	201,399	1.1%
Hazelton	Research	48,781	0.2%	19,218	116,300	135,518	0.7%
Mattawan	Municipality	318,224	1.0%	99,355	-	99,355	0.5%
Vicksburg	Municipality	270,263	0.9%	84,391	-	84,391	0.4%
		<u>14,770,953</u>	<u>48.3%</u>	<u>\$ 3,481,129</u>	<u>\$ 7,319,931</u>	<u>\$ 10,801,060</u>	<u>56.8%</u>

(1) Based on wastewater treatment volume of 30,565,892 cubic meters.

(2) Based on Wastewater System billed revenue of \$19,030,333

CITY OF KALAMAZOO, MICHIGAN

WASTEWATER SYSTEM

WASTEWATER REVENUE AS BILLED

BY METER LOCATION AND CLASSIFICATION

LAST FIVE FISCAL YEARS

<u>Meter Location and Classification</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
City:					
Residential	\$ 1,777,401	\$ 1,747,103	\$ 1,659,454	\$ 1,674,809	\$ 1,654,702
Commercial	1,991,531	2,030,099	1,758,104	1,836,798	1,829,068
Industrial	226,208	218,098	186,282	163,914	175,900
Industrial Monitored	367,522	362,670	633,268	820,588	868,508
Contract	994,324	834,965	915,469	919,462	907,089
Municipalities	-	-	-	-	-
Septage Haulers	-	-	-	-	-
Dewatering	39,032	132,618	21,725	12,224	38,524
Total City	<u>5,396,018</u>	<u>5,325,553</u>	<u>5,174,302</u>	<u>5,427,795</u>	<u>5,473,791</u>
Out City:					
Residential	\$ 1,442,522	\$ 1,696,410	\$ 1,708,603	\$ 1,887,708	\$ 1,923,100
Commercial	1,335,082	1,425,529	1,317,917	1,488,569	1,728,051
Industrial	107,708	109,991	123,721	105,912	112,742
Industrial Monitored	714,823	621,299	742,607	902,925	993,519
Contract	6,636,049	6,371,252	6,401,938	4,653,742	5,975,185
Municipalities	1,930,012	1,973,103	2,076,481	2,365,379	2,533,583
Septage Haulers	488,195	479,060	507,895	305,516	284,542
Dewatering	66,903	56,012	42,791	35,088	5,821
Total Out City	<u>12,721,293</u>	<u>12,732,654</u>	<u>12,921,953</u>	<u>11,744,839</u>	<u>13,556,543</u>
Total System:					
Residential	\$ 3,219,923	\$ 3,443,513	\$ 3,368,057	\$ 3,562,517	\$ 3,577,802
Commercial	3,326,613	3,455,628	3,076,021	3,325,367	3,557,119
Industrial	333,916	328,089	310,003	269,826	288,642
Industrial Monitored	1,082,345	983,969	1,375,875	1,723,513	1,862,027
Contract	7,630,373	7,206,216	7,317,407	5,573,204	6,882,274
Municipalities	1,930,012	1,973,103	2,076,481	2,365,379	2,533,583
Septage Haulers	488,195	479,060	507,895	305,516	284,542
Dewatering	105,935	188,629	64,516	47,312	44,345
Total System	<u>\$ 18,117,311</u>	<u>\$ 18,058,207</u>	<u>\$ 18,096,255</u>	<u>\$ 17,172,634</u>	<u>\$ 19,030,334</u>

CITY OF KALAMAZOO, MICHIGAN

WASTEWATER SYSTEM

HISTORY OF SYSTEM RATE INCREASES

<u>Date Increase Effective</u>	<u>Percent Increase</u>
January 1, 1984	-7.50%
February 8, 1995	0.00%
March 2, 1987	0.00%
January 1, 1991	0.00%
January 1, 1993	0.00%
January 1, 1995	0.00%
March 3, 1997	0.00%
February 1, 1998	0.00%
March 15, 1999	0.00%
July 1, 2001	4.00%
February 1, 2002	0.00%
April 30, 2004	6.75%

* In 1999 there was a revenue neutral rate change. That is, rates for some classifications increased while rates for other classifications decreased. Overall, there was no increase in revenue.

**CITY OF KALAMAZOO,
MICHIGAN**

SINGLE AUDIT

For the Year Ended December 31, 2005



REHMANN ROBSON

Certified Public Accountants

CITY OF KALAMAZOO, MICHIGAN
Single Audit

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For the Year Ended December 31, 2005

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CITY OF KALAMAZOO, MICHIGAN
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2005

Federal/Pass-through Grantor Program Title	CFDA Number	Federal/ Pass-through Grantor Number	Award Amount	Federal Expenditures
U.S. Department of Housing and Urban Development				
Direct programs:				
Community Development Block Grant:				
Program year 1998/99	14.218	B-98-MC-26-0022	\$ 2,300,016	\$ 5,108
Program year 1999/00	14.218	B-99-MC-26-0022	2,290,000	95,627
Program year 2001/02	14.218	B-01-MC-26-0022	2,410,000	6,626
Program year 2002/03	14.218	B-02-MC-26-0022	2,396,000	245,544
Program year 2003/04	14.218	B-03-MC-26-0022	2,168,000	56,253
Program year 2004/05	14.218	B-04-MC-26-0022	2,166,000	752,121
Program year 2005/06	14.218	B-05-MC-26-0022	2,056,687	975,066
Total Community Development Block Grant				2,136,345
Home Investment Partnerships Program:				
Program year 2003/2004	14.239	M-03-MC-26-0207	3,954,217	1,251,774
Total U.S. Department of Housing and Urban Development				3,388,119
U.S. Department of Justice				
Direct programs:				
Local Law Enforcement Block Grant:				
Program year 2003/04	16.592	03-LB-BX-0991	137,404	36,894
Program year 2004/05	16.592	04-LB-BX-0350	64,918	55,245
Total Local Law Enforcement Block Grant				92,139
Weed and Seed Grant:				
Program year 2004/05	16.595	2004-WS-Q4-0145	224,997	198,508
Bulletproof Vest Program:				
Program year 2005	16.607	-n/a-	14,443	14,443
Project Safe Neighborhood:				
Program year 2003/04	16.609	2003-GP-CX-0561-4-24003	125,000	65,998
COPS In School Grant:				
Program year 2003/04	16.710	2002SHWX0469	375,000	137,665
Justice Administration Grant	16.738	2005DJBX0103	134,449	134,449
Passed through the Michigan Family Independence Agency:				
Juvenile Justice Grant:				
Program year 2004/05	16.540	JP 05-39001	37,500	34,892
Total U.S. Department of Justice				678,094

(Continued)

CITY OF KALAMAZOO, MICHIGAN
Schedule of Expenditures of Federal Awards (Concluded)
For the Year Ended December 31, 2005

Federal/Pass-through Grantor Program Title	CFDA Number	Federal/ Pass-through Grantor Number	Award Amount	Federal Expenditures
U.S. Department of Transportation				
Direct programs:				
Federal Transit Administration -				
Capital, Planning, and Operating Assistance:				
Capital 1996	20.507	MI-90-0261	\$ 80,000	\$ 80,000
Capital 1999	20.507	MI-90-X317	1,604,901	83,746
Capital 2002	20.507	MI-90-X382	1,117,801	15,420
Capital 2003	20.507	MI-90-X404	858,655	69,709
Capital 2004	20.507	MI-03-X206	3,775,993	2,562,237
Capital 2004	20.507	MI-90-X431	503,325	81,874
Capital 2005	20.507	MI-90-X455	1,632,732	7,200
Capital 2006	20.507	MI-03-0216	2,993,076	484,740
Operating	20.507		1,239,132	1,239,132
Total FTA Capital, Planning, and Operating Assistance				<u>4,624,058</u>
Environmental Protection Agency				
Direct program:				
National Brownfield Pilot - Redevelopment				
Initiative - Assistance Amendment	66.807	V985392-01-1	100,000	<u>20,601</u>
Passed-through the Michigan Department of Environmental Quality:				
Wellhead Protection Grant:				
Program year 2004/05	66.468	-n/a-	70,000	<u>47,171</u>
Total Environmental Protection Agency				<u>67,772</u>
U.S. Department of Homeland Security				
Direct program:				
Assistance to Firefighters	97.044	EMW-2003-FP-00710	124,600	82,150
Assistance to Firefighters	97.044	EMW-2004-FP-00656	161,770	28,678
Total Assistance to Firefighters				<u>110,828</u>
Passed-through the Michigan Department of State Police:				
Homeland Security Grant	97.067		10,868	<u>10,868</u>
State Domestic Preparedness Equipment Support Program	97.004		202,000	<u>202,000</u>
Total U.S. Department of Homeland Security				<u>323,696</u>
Total Expenditures of Federal Awards				<u><u>\$ 9,081,739</u></u>

CITY OF KALAMAZOO, MICHIGAN

Notes to Schedule of Expenditures of Federal Awards

1. GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of the City of Kalamazoo, Michigan (the "City"). Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on this schedule.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

The City of Kalamazoo reporting entity is defined in Note I of the City's basic financial statements.

The City administers certain federal awards programs through subrecipients. Those subrecipients are not considered part of the City of Kalamazoo reporting entity. Of the federal expenditures presented in the schedule, the City of Kalamazoo provided federal awards to subrecipients as follows:

Program Title	Federal CFDA Number	Amount Provided to Subrecipients
Community Development Block Grant	14.218	\$ 1,196,184
Home Investment Partnership Program	14.239	1,251,774
Local Law Enforcement Block Grant	16.592	92,138
Weed and Seed Grant	16.595	198,508
Juvenile Justice Grant	16.540	46,380
Assistance to Firefighters	97.044	<u>82,150</u>
Total		<u>\$ 2,867,134</u>

* * * * *



REHMANN ROBSON

Certified Public Accountants

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

June 14, 2006

Honorable Mayor and Members
of the City Commission
City of Kalamazoo, Michigan

We have audited the financial statements of the *City of Kalamazoo, Michigan*, as of and for the year ended December 31, 2005, and have issued our report thereon dated June 14, 2006. We did not audit the financial statements of the Downtown Development Authority and the Kalamazoo Municipal Golf Association, which represent 17.2% and 5.2% of the assets and 23.6% and 4.5% of the revenues of the aggregate discretely presented component units, respectively. Those financial statements were audited by other auditors whose reports were furnished to us, and our opinion, insofar as it relates to the amounts included for the Downtown Development Authority and the Kalamazoo Municipal Golf Association, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Kalamazoo Golf Association were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the *City of Kalamazoo, Michigan's* internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our report and the reports of other auditors noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the *City of Kalamazoo, Michigan's* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests and the reports of the other auditors disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, others within the organization, City Commission, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, stylized 'L' at the beginning.



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

June 14, 2006

Honorable Mayor and Members
of the City Commission
City of Kalamazoo, Michigan

Compliance

We have audited the compliance of the ***City of Kalamazoo, Michigan*** with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2005. The ***City of Kalamazoo, Michigan's*** major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the ***City of Kalamazoo, Michigan's*** management. Our responsibility is to express an opinion on the ***City of Kalamazoo, Michigan's*** compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the ***City of Kalamazoo, Michigan's*** compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the ***City of Kalamazoo, Michigan's*** compliance with those requirements.

In our opinion, the ***City of Kalamazoo, Michigan*** complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2005.

Internal Control Over Compliance

The management of the *City of Kalamazoo, Michigan* is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the *City of Kalamazoo, Michigan's* internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Kalamazoo, Michigan*, as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 14, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Kalamazoo's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

We did not audit the financial statements of the Downtown Development Authority and the Kalamazoo Municipal Golf Association, which represents 17.2% and 5.2% of the assets and 23.6% and 4.5% of the revenues of the aggregate discretely presented component units, respectively. Those financial statements were audited by other auditors whose reports were furnished to us, and our opinion, insofar as it relates to the amounts included for the Downtown Development Authority and the Kalamazoo Municipal Golf Association, is based solely on the reports of the other auditors.

This report is intended solely for the information and use of the audit committee, management, others within the organization, City Commission, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



CITY OF KALAMAZOO, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2005

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

_____ yes X no

Reportable condition(s) identified
not considered to be material weaknesses?

_____ yes X none reported

Noncompliance material to financial statements
noted?

_____ yes X no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified?

_____ yes X no

Reportable condition(s) identified
not considered to be material weaknesses?

_____ yes X none reported

Type of auditors' report issued on compliance
for major programs:

Unqualified

Any audit findings disclosed that are required
to be reported in accordance with
Circular A-133, Section 510(a)?

_____ yes X no

CITY OF KALAMAZOO, MICHIGAN

Schedule of Findings and Questioned Costs (Concluded)

For the Year Ended December 31, 2005

SECTION I - SUMMARY OF AUDITORS' RESULTS (Concluded)

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218 20.507	Community Development Block Grant Federal Transit Administration-Capital, Planning and Operating Assistance

Dollar threshold used to distinguish
between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? X yes no

SECTION II – FINANCIAL STATEMENT FINDINGS

None.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None.

SECTION IV – PRIOR YEAR FINDINGS

None

* * * * *



REHMANN ROBSON

Certified Public Accountants

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June 14, 2006

To the Board of Commissioners of the
City of Kalamazoo
Kalamazoo, Michigan

We have audited the financial statements of the City of Kalamazoo for the year ended December 31, 2005, and have issued our report thereon dated June 14, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter dated January 11, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the City of Kalamazoo's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the City of Kalamazoo's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the City of Kalamazoo's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the City of Kalamazoo's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City of Kalamazoo's compliance with those requirements.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Kalamazoo are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the City of Kalamazoo during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the original cost and accumulated depreciation of its infrastructure capital assets is based on current replacement costs, and an assumed rate of inflation from the dates of original acquisition/construction. We evaluated the key factors assumptions used to develop the original cost and accumulated depreciation of the City's infrastructure capital assets in determining that they are reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the useful lives of depreciable fixed assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the liability for uninsured risks of loss, including incurred but not reported claims, which are accounted for in certain of the City's internal service funds and for which the City utilizes the services of an independent third-party risk management consultant to estimate the liability. We relied upon the work of the third-party expert in determining that the liability is reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City of Kalamazoo's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the City of Kalamazoo, either individually or in the aggregate, indicate matters that could have a significant effect on City of Kalamazoo's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Kalamazoo's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum are intended for the use of the Board of Commissioners, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large, prominent 'L' and 'J'.

City of Kalamazoo
Comments and Recommendations
For the Year Ended December 31, 2005

During our audit we became aware of certain issues regarding internal control and financial reporting. This memorandum summarizes our comments and suggestions regarding these matters. This memorandum does not affect our report dated June 14, 2006 on the financial statements of the City of Kalamazoo.

Utility Billing System and Miscellaneous Receivables

As noted in connection with the 2004 audit, the City's current utility billing system currently suffers from a number of limitations, including the inability to run subsidiary ledgers at a specified point-in-time and the inability to fully write-off old or uncollectible accounts. This requires the City to prepare spreadsheet analyses in order to reconcile the amounts reported in the general ledger to the amounts in the utility billing system. Not only does this add to the administrative effort necessary to account for these operations, but it represents a potential fraud risk and poses various audit difficulties.

The City's Treasury Department has the responsibility for maintaining the records for numerous miscellaneous receivables. The current system is unable to print detailed subsidiary ledgers by receivable type for reconciliation purposes. In order, to reconcile receivables by type, an employee must hand key data into a spreadsheet and then add together all of the like receivables. This approach is very time consuming and makes it difficult to properly track the balance of various receivables.

We understand that the City is currently implementing a new financial software package for 2006 to address these and other issues.

Bank Reconciliations

The Michigan Department of Treasury has recently issued guidance re-emphasizing its position as stated in the *Uniform Accounting Procedures Manual* that local units of government are required to prepare bank reconciliations for all cash accounts monthly. Auditors are now required to report to the Local Audit and Finance Division whether all bank reconciliations examined in connection with our audit were performed timely (i.e., within six weeks of each month end).

In connection with the 2004 audit, we identified a significant issue related to bank reconciliations not being prepared and reviewed in a timely manner. During 2005, management took appropriate steps to correct this deficiency, including providing the audit committee with monthly status reports on the progress of bank reconciliations. We are pleased to note that all of the City's cash accounts were reconciled at year end, and as of the date of our audit procedures, the lag in completing current reconciliation was down to only 1-2 months for all accounts. Management is working to further reduce this lag in 2006.

The preparation and independent review of bank reconciliations for all cash accounts is a key internal control over cash management. Accordingly, we recommend that the City continue to make all necessary efforts to ensure that bank reconciliations are completed and reviewed timely throughout the year, as well as at year end, for all cash accounts.

City of Kalamazoo

Comments and Recommendations

For the Year Ended December 31, 2005

Metro Transit General Inventory

The City maintains a perpetual inventory system for the Metro Transit System. At year end, the City performed a physical count of this inventory and made a routine and insignificant adjustment to the general ledger to adjust the account balance to actual. As a part of audit procedures, we performed an interim test count, and compared it to the current general ledger balance. For the items selected, we found an unusually high error rate (approximately 1 in 4 items sampled). In each case, the actual quantity of inventory on hand was less than the quantity reported by the perpetual inventory system. In addition, the balance reported on the general ledger differed significantly from the total in the inventory tracking system.

While the variances noted during our interim testing do not directly bear on the year end balances subject to audit, given the problems we encountered, we recommend that the City conduct physical counts and reconcile to the general ledger balance at least quarterly. This will help ensure that inventory is recorded correctly throughout the year and will ensure that the interim financial reports submitted to outside agencies are up-to-date and accurate.

* * * * *